

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

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

ITA No. 1821/Bang/2025
Assessment Year: 2022-23

The Karnataka State Cooperative Agriculture and Rural Development Bank, Post Box 1811, Tippu Palace Road, Tippu Fort, Chamrajpet, Bangalore – 560 018. PAN – AAAAT 7773 N	Vs.	The Income Tax Officer, Ward – 5(2)(1), Bengaluru.
APPELLANT		RESPONDENT

Assessee by	:	Shri Bhardwaj Sheshadri, Advocate & Shri K Sheshadri, CA
Revenue by	:	Shri Subramanian, JCIT (DR)

Date of hearing	:	12.01.2026
Date of Pronouncement	:	09.04.2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeal, at the instance of the assessee, is directed against the order passed under section 250 of the Income Tax 1961 and is pertaining to A.Y. 2022-23 by the learned Commissioner of Income Tax Appeal (hereafter the learned CIT(A)) at National Faceless Appeal Centre-NFAC bearing DIN: ITBA/NFAC/S/250/2025-26/1077045835(1).

2. The assessee in the memo of appeal has raised as many as 10 grounds of appeal. However, all the grounds raised are interconnected and effectively 2 issued raised therein.

3. The first issue raised by the assessee is that the learned CIT(A) erred in confirming the disallowances of deduction claimed under section 80P of the Act for Rs. 3,16,97,426/- and treating the same as income from other sources.

4. The brief facts are that the assessee is a State level Federal Agri and Rural Development Credit Co-op Society. The assessee was formed as a state-level non-banking co-operative credit society in the year 1929, well before the enactment of the Karnataka Co-operative Societies Act, 1959 ("KCS Act"), the Reserve Bank of India Act, 1934, or the Banking Regulation Act, 1949 (BRA). After the enactment of KCS Act, the assessee came to be registered under KCS Act 1959.

5. The assessee is the state level apex organization whose members are mainly 180 Primary Cooperative Agricultural and Rural Development Bank (PCARD) which are operating at taluk and sub taluka level within the state of Karnataka. The assessee lends money to these PCARD under the various scheme including schemes formulated by the National Bank for Agricultural and Rural Development. In turn, the PCARD lend money to farmers for various purposes such as irrigation, land development, horticulture, plantation and animal husbandry etc.

5.1 Besides above the assessee also lend money to nominal members other than PCARD and its employees as staff welfare measure. During

the year under consideration, the assessee has earned gross total income of ₹ 177,51,89009/- which included ₹ 19,20,74,941/- being from the sources other than extending loan to the members, the details stand as under:

- Interest on investments- ₹ 16,59,75,667/-
- Interest on other advances – ₹ 1,77,67,660/-
- Other income – ₹ 83,31,614/-

5.2 The AO referred to the provisions of section 80P of the Act and observed that deduction under section 80P(2)(a)(i) is admissible only in respect of profits and gains attributable to the activity of carrying on the business of banking or providing credit facilities to its members. According to the AO, any income arising from activities other than providing credit facilities to members does not fall within the ambit of section 80P(2)(a)(i) of the Act and is not eligible for deduction. The AO further relied on the judgment of the Hon'ble Supreme Court in the case of *Totgars Co-operative Sale Society Ltd. v. ITO* reported in 322 ITR 283 and held that only operational income attributable to the specified activities mentioned in section 80P(2)(a) is eligible for deduction, and interest income earned on surplus funds not immediately required for business purposes is taxable as "Income from other sources" under section 56 of the Act. Accordingly, the AO held that interest on investment, interest on other advances and other income aggregating to ₹19,20,74,941/- is not eligible for deduction under section 80P(2)(a)(i) of the Act and liable to tax as income from other sources. The AO thereafter computed relatable expenses on a proportionate basis, at ₹16,03,77,515/- only and made addition of ₹3,16,97,426/- (₹19,20,74,941 - ₹16,03,77,515) to the total income of the assessee.

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

7. The assessee before Id. CIT(A) submitted that section 80P(2)(a)(i) of the Act allows deduction of the whole amount of profits and gains of business attributable to the activity of providing credit facilities to members. The assessee submitted that the AO wrongly confined the scope of deduction only to interest income from members, whereas the provisions allow deduction of the entire business income attributable to the eligible activity, once the assessee is found to be carrying on the business of providing credit facilities to its members.

7.1 The assessee further submitted that the judgment of the Hon'ble Supreme Court in *Totgars Co-operative Sale Society Ltd (supra)* relied upon by the AO was not applicable to the facts of the present case. In that case, the interest income arose from investment of funds payable to members on sale of agricultural produce was held to be non-operational in nature. In the present case, the incomes under dispute form part of operational income attributable to the business of providing credit facilities and therefore qualify for deduction under section 80P(2)(a)(i) of the Act.

7.2 The assessee submitted that interest on other advances amounting to ₹1,77,67,660/- are source from loans and advances to staff and nominal members to whom loan were provided under FD scheme and BO loan scheme. The assessee explained that interest earned from nominal and associate members has already been held by

the Tribunal in assessee's own case for AY 2012-13 to be eligible for deduction under section 80P(2)(a)(i) of the Act.

7.3 The assessee further contended that interest on staff loans is also attributable to the business of providing credit facilities. Staff loans are an integral and incidental part of the business activity and cannot be treated as a separate or independent source of income. It was submitted that such loans are authorized by bye laws of the society and the Karnataka Co-operative Societies Act, 1959, and therefore constitute legitimate business activity. The assessee relied on judicial precedents to submit that the expression "attributable to" is of wider import than "derived from" and covers incidental and ancillary income connected with the main business.

7.4 It was further submitted that once eligibility under section 80P of the Act is established, the test shifts to attributability of income to the business activity, and not to a narrow identification of the immediate source of income. The assessee relied on judicial pronouncements to contend that providing credit facilities to non-members or nominal members does not disentitle the assessee from deduction once the primary condition of carrying on eligible activity is satisfied.

7.5 In respect of other income of ₹83,31,614/-, the assessee submitted that it comprises several components such as vehicle hire charges recovered from PCARDS, service charges, processing fees, locker rent, counter interest on loans, share fees and nominal membership fees, miscellaneous receipt, building rent, commission income which are included in said sum. The assessee explained that receipts such as

vehicle hire charges recovered from PCARDs, service charges, processing fees, locker rent, counter interest on loans, share fees and nominal membership fees etc directly arises from business operations and were wrongly treated by the AO as income from other sources. It was submitted that these receipts are operational in nature and attributable to the business of providing credit facilities.

7.6 Similarly, the commission income of ₹ 56,08,835/- was received from IFFCO-Tokio General Insurance Company Ltd. (ITGI) which is a joint venture subsidiary of Indian Farmers Fertilizers Cooperative Ltd. (IFFCO) and the assessee is a constituent of IFFCO. It was explained that the assessee entered into agreement with ITGI to enable the farmers who availed loan from PCARD to ensure their agricultural equipment or assets for the purpose of providing safety cover of the farmers assets and in turn safeguarding loan amount financed by the assessee ultimately. Accordingly, the assessee claimed the receipt of insurance commission form the part of lending activity and attributable to the business of credit facility to the member. Therefore, the commission income is eligible for deduction under section 80P(2)(a)(i) of the Act.

7.7 Regarding e-stamping commission of ₹ 75,682/-, the assessee submitted that although the Tribunal in earlier years treated such income as income from other sources, it had directed allowance of corresponding expenses. Accordingly, even if e-stamping income is not considered eligible for deduction under section 80P of the Act, expenses attributable thereto must be allowed.

7.8 The assessee further addressed the issue of interest on investments amounting to ₹16,59,75,667/- only by submitting that the AO erred in treating the entire amount as income from other sources. The assessee contended that interest earned on deployment of surplus or statutory funds is attributable to the business of providing credit facilities and is eligible for deduction under section 80P(2)(a)(i) of the Act. Reliance was placed on judicial precedents distinguishing *Totgars* wherein it was held that interest on investments does not lose its character as business income.

7.9 Alternatively, it was submitted that interest and dividend earned from investments with co-operative banks and co-operative societies are independently eligible for deduction under section 80P(2)(d) of the Act. The assessee furnished additional evidence giving a detailed breakup of interest and dividend income and demonstrated that a substantial portion arose from investments with co-operative institutions.

7.10 Without prejudice to the above, the assessee contended that if any portion of the interest income is treated as income from other sources, proportionate cost of funds and administrative expenses must be allowed as deduction, as held by the Hon'ble Jurisdictional High Court. The assessee also relied on the decision of the Hon'ble Supreme Court in *National Co-operative Development Corporation* reported in 119 taxmann.com 137 to submit that interest earned on temporary parking of funds pending deployment in business activities is assessable as business income and not under section 56 of the Act.

7.11 In conclusion, the assessee submitted that the AO wrongly disallowed deduction under section 80P of the Act by adopting an unduly restrictive interpretation of the provision. It was contended that either the entire amount of ₹19,20,74,941/- is eligible for deduction under section 80P(2)(a)(i), or alternatively, substantial portions are eligible under section 80P(2)(a)(i) and section 80P(2)(d) of the Act, and in any case, proportionate expenses must be allowed against any income treated as income from other sources.

8. The learned CIT(A) considered the issue relating to disallowance of ₹3,16,97,426/- out of the assessee's claim of deduction of ₹42.30 crore under section 80P(2)(a)(i) of the Act. The disallowance was made by the Assessing Officer on the ground that the said amount pertained to income such as interest on investments and interest from loans advanced to employees and nominal members, which was not attributable to the activity of providing credit facilities to its members.

8.1 The learned CIT(A) observed that deduction under section 80P(2)(a)(i) of the Act is available only in respect of profits and gains attributable to the business of providing credit facilities to members. It was noted that the assessee is required to establish a clear nexus between the income claimed for deduction and the eligible activity of providing credit facilities to its members. Mere assertion that the funds were used in furtherance of the assessee's overall objectives was held to be insufficient.

8.2 The learned CIT(A) contented that the assessee failed to furnish a member-wise breakup of interest income or to demonstrate that the

interest earned from investments amounting to ₹16.59 crores and interest on other advances amounting to ₹1.77 crore was directly derived from lending activities to regular class members. It was observed that loans advanced to employees and nominal members, as well as investments of surplus funds, could not automatically be treated as income attributable to the core activity of providing credit facilities to members. Reliance was placed on the decision of the Hon'ble Supreme Court in *Totgar's Co-operative Sale Society Ltd. v. ITO(supra)*, wherein it was held that interest income earned on surplus funds invested in short-term deposits and securities is assessable as "Income from other sources" and does not qualify for deduction under section 80P(2)(a)(i) of the Act, as such income is not attributable to the business of providing credit facilities to members. The learned CIT(A) noted that the Hon'ble Supreme Court clearly emphasized that only operational income arising from member-centric lending activities is eligible for deduction.

8.3 The learned CIT(A) further referred to the decision of the Hon'ble Supreme Court in *National Co-operative Development Corporation v. CIT reported in 427 ITR 288*, wherein it was held that not every receipt of a co-operative society is automatically entitled to deduction under section 80P of the Act, and that the burden lies on the assessee to establish a nexus between the income and the activity of providing credit facilities to its members. Applying this principle, the learned CIT(A) held that the assessee failed to discharge this burden.

8.4 The assessee's reliance on judicial precedents such as *Tumkur Merchants Souharda Credit Cooperative Ltd. reported in 55 taxmann.com 447* was considered. However, the learned CIT(A)

observed that the said decision was rendered on distinct facts where funds were deployed temporarily in the normal course of business. In contrast, in the present case, the assessee had not demonstrated that the interest income arose directly from eligible lending activity. The learned CIT(A) also took note of the observations of the Hon'ble Supreme Court in *Mavilayi Service Cooperative Bank Ltd.*, wherein it was clarified that eligibility under section 80P of the Act must be determined based on actual business activity and functional parameters, and that if a co-operative society carries on banking activities or lends to non-members or on commercial lines, deduction under section 80P(2)(a)(i) of the Act would not be allowable.

8.5 Accordingly, the learned CIT(A) upheld the action of the Assessing Officer in disallowing deduction under section 80P of the Act to the extent of ₹3,16,97,426/-. The grounds raised by the assessee on this issue were therefore dismissed.

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

10. The Ld. AR before us filed paper book running from pages 1 to 352, synopsis of argument running from page 1 to 8 and compilation of case laws running from pages 1 to 224. The learned AR submitted that the issue relating to interest income earned from investments amounting to ₹16,59,75,667/- is squarely covered in favour of the assessee by the order of the co-ordinate Bench of this Tribunal in assessee's own case reported in ITA Nos. 1052 to 1060/Bang/2023. It was submitted that in the earlier ITAT order, the Tribunal has examined the nature of

investment income earned by the assessee and has held that the entire income from investments is attributable to the business of the assessee and is eligible for deduction under section 80P(2)(a)(i) of the Act. The learned AR submitted that the Tribunal, in the earlier order, has specifically considered interest income arising from statutory investments as well as non-statutory investments and has held that such income constitutes business income. It was further submitted that the Tribunal has also held that interest income earned from investments in co-operative societies, whether statutory or otherwise, is attributable to the business of the assessee. The learned AR submitted that once the investment income is held to be business income attributable to the eligible activity, the same would, as a natural corollary, qualify for deduction under section 80P(2)(a)(i) of the Act. It was further submitted that the facts and circumstances for the year under consideration are identical to those considered by the Tribunal in the earlier order and there is no change either in facts or in law warranting a different view. Accordingly, the learned AR submitted that the interest income of ₹16,59,75,667 earned from investments is eligible for deduction under section 80P(2)(a)(i) of the Act and the disallowance made by the Assessing Officer deserves to be deleted.

10.1 Regarding the interest income on other advances of Rs. 1,77,67,660/-, the learned AR submitted that same includes interest on staff loans of Rs. Rs. 59,24,664/-, interest on branch office loan of Rs. 5,69,660/- and interest on loan against fixed deposit. The learned AR argued that interest earned from staff loans is attributable to the business of providing credit facilities carried on by the assessee and therefore eligible for deduction u/s 80P(2)(a)(i) of the Act. In contending

so, the Ld. AR relied on the decisions of the Hon'ble Gujarat High Court in *Madhya Gujarat Vij Co. Ltd. reported in 162 taxmann.com 201*, the Hon'ble Rajasthan High Court in *Sirohi S.B.V. Bank Ltd. reported in 176 Taxman 404*, and the judgment of the Hon'ble Supreme Court in *Cambay Electric Supply Industrial Co Ltd. reported in 113 taxmann.com* and *Mavilayi Service Co-operative Bank Ltd. (supra)*, to submit that interest on staff loans is attributable to the business of providing credit facilities. It was further submitted that staff loans are granted as per the bye-laws of the assessee society and therefore the interest earned thereon forms part of the normal banking activity and is eligible for deduction u/s 80P(2)(a)(i) of the Act. Likewise, the loan against fixed deposits extended exclusively to the staff and nominal members are qualified for deduction under section 80P(2)(a)(i) of the Act. Therefore, the interest income of Rs. 1,12,73,336/- earned on such loans against FD and interest income of Rs. 5,69,660/- on branch office loan are attributable to carrying on banking business or providing credit facilities.

10.2 The learned AR regarding the other income of Rs. 83,31,614/- submitted that under the other head, the income includes various types of receipt such as rent on building, vehicle hire charges from PCARD, service charges received from PCARD for sale of books and forms, locker rent, processing fee, share fee, nominal membership fee, e-stamping, commission on ITGI insurance premium etc. According to the Ld. AR all such incomes are eligible for deduction under section 80P(2)(a)(i) of the Act.

11. On the other hand, the learned Departmental Representative (Ld. DR) relied on the orders of the Assessing Officer and the Commissioner of Income Tax (Appeals). The Ld. DR submitted that the interest income of ₹16,59,75,667/- earned from investments cannot be treated as income attributable to the business of providing credit facilities to members and hence is not eligible for deduction under section 80P(2)(a)(i) of the Act. It was contended that such income arises from deployment of surplus funds in deposits and securities and is assessable under the head "Income from Other Sources". The Ld. DR further submitted that the ratio laid down by the Hon'ble Supreme Court in the case of Totgars Co-operative Sale Society Ltd. is squarely applicable, wherein it was held that interest earned on surplus funds invested in short-term deposits is not eligible for deduction under section 80P(2)(a)(i) of the Act. It was argued that this principle applies irrespective of whether the investments are statutory or non-statutory in nature. With regard to the reliance placed on the earlier order of the Tribunal, the Ld. DR submitted that the Revenue has not accepted the said decision and the same has not attained finality. It was also argued that each assessment year is separate and principles of res judicata do not apply. Regarding other incomes, the Ld. DR submitted that such receipts lack direct nexus. Accordingly, the disallowance made by the Assessing Officer deserves to be upheld.

12. We have heard the rival contentions of both the parties and perused the materials available on record. Without going into specific dispute, first we proceed to discuss the functioning of the assessee cooperative society. Admittedly the assessee is a State Level Federal Agriculture and Rural Development Credit Society and Primary Co-op

Agriculture and Rural Development- PCARD functioning at the Taluk and Sub-Taluk levels. PCARD are the core members of the assessee. The assessee also has certain numbers of nominal and associate members other than PCARD.

12.1 The individual farmers who are the members of respective PCARD, approached the PCARD for Agricultural and Allied loans for purposes such as Minor Irrigation, Land Development, Horticultural and Plantation, Animal Husbandry, Farm Mechanization, Farm forestry, Fisheries and Aquaculture, Rural housing etc. The respective PCARD process the loan applications under NABARD Schemes and forward such loan applications along with technical and financial appraisal reports to the district officer of the assessee. Thereafter the required funds are disbursed by the assessee to the respective PCARD for sanction of loans to the individual farmers. Besides extending loans to farmers through PACARD, the assessee is also extending loans to associate/nominal members and its employee as staff loans. Some of the staff were also associate/nominal members of the assessee.

12.2 The assessee is not allowed to collect or accept deposit other than from its members (being regular, associate or nominal members). Further the assessee is permitted to mobilize term deposits of not less than one year and to the extent of its financial net worth only. Thus, the assessee also borrows long term refinancing from NABARD for which state government provides guarantee to the NABARD. Thus, the function of the assessee society can be broadly defined into following categories:

- Collection of share capital from its members that is the PCARD Banks

- Availing refinance assistance from NABARD subject to the NABARD's refinances norms.
- Disbursement of Long-Term agriculture and Allied loans to the farmers through its member's constituent's viz, the PCARD Banks.
- Loan and advances to employees.
- Loan and advances to nominal/associate members against FD.
- Management of recoveries at village levels.
- Overall supervision of functioning of the PCARD Banks.

12.3 In the year under consideration the assessee from above discussed broad functions carried has earned gross income of Rs. 177,51,89,009/- which were divided into following heads:

- Interest on loans through PCARD	Rs. 158,31,14,068/-
- Interest on investment	Rs. 16,59,75,667/-
- Interest on other advances.	Rs. 1,77,67,660/-
- Other income	Rs. 83,31,614/-

12.4 By the AO, the incomes other than interest on loan through PCARD, aggregating to Rs. 19,20,74,941/- was considered as not attributable to business of providing credit facility under section 80P(2)(a)(i) of the Act. The AO after providing credit of corresponding proportionate expenses, made an addition of Rs. 3,16,97,426/- to the total income of the assessee as income from other sources. Hence the dispute before us is whether the interest on investments & other advances and other incomes is eligible for deduction under section 80P(2)(a)(i) of the Act or not.

First, we proceed to deal with issue of interest on investment for Rs. 16,59,75,667/-.

12.5 The impugned interest of Rs. 16,59,75,667/- was earned from deposit with cooperative bank and cooperative society. The deposits are of two kinds i.e.

- (i) Investments in the nature of statutory reserves or funds which the assessee is mandated by law of cooperative society Act.
- (ii) Investment of idle fund

12.6 At the outset, we note that the issue eligibility of deduction under section 80P(2)(a)(i) of the Act on the interest earned on deposit (statutory and idle fund) has been decided in favour of the assessee by the Tribunal in own case of the assessee for A.Y. 2012-13 to 2018-19 & 2020-21 in ITA No. 1052 to 1060/Bang/2023. The relevant findings of the Tribunal are extracted as under:

17. In respect of deduction available to the assessee on interest earned from investments, Hon'ble Supreme Court in case of Kerala State Co-operative Agricultural and Rural Development Bank Ltd. KSCARDB vs. The Assessing Officer, Trivandrum & Ors. (supra), Hon'ble Supreme Court analysed applicability of section 80P(2)(d) deduction to an assessee in great detail.

17.1 At the outset, assessee has invested to meet the statutory requirement as provided u/s. 58 of the Karnataka Co-operative Societies Act, 1959 as it is imperative to carry on the business of providing banking or credit facilities to the members. It is submitted that, the investments are made out of Reserve funds of the society. It was thus submitted that the case law relied on by the Ld.CIT(A) is M/s. Totgars Cooperative Sales Society reported in 322 ITR 283 (SC) which are distinguishable on facts being:

- It is primarily engaged in the business of providing credit facilities to its members and marketing their agricultural produce.*
- At the time of marketing the produce, the sale proceeds are retained, and as the funds are not immediately required, the same was deposited and interest is earned. The funds used for investment are out of amount payables to the members retained by them.*
- As interest was earned on money due to the members, that was deposited with the Bank, the same was held to be taxed as 'IFOS' u/s 56 of the Act (emphasis drawn from paras 10-11 of the judgment).*

17.2 Now coming to the merits of the disallowance made u/s. 80P(2)(d) by the authorities below, the word 'attributable' used in the said Section is of great importance. Hon'ble Supreme Court considered the meaning of the word 'attributable' as supposed to derive from its use in various other provisions of

the statute, in the case of Cambay Electric Supply Industrial Co. Ltd. v. CIT [1978] 113 ITR 84 (at page 93) as under:—

"As regards the aspect emerging from the expression "attributable to" occurring in the phrase "profits and gains attributable to the business of" the specified industry (here generation and distribution of electricity) on which the learned Solicitor-General relied, it will be pertinent to observe that the legislature has deliberately used the expression "attributable to" and not the expression "derived from". It cannot be disputed that the expression "attributable to" is certainly wider in import than the expression "derived from". Had the expression "derived from" been used, it could have with some force been contended that a balancing charge arising from the sale of old machinery and buildings cannot be regarded as profits and gains derived from the conduct of the business of generation and distribution of electricity. In this connection, it may be pointed out that whenever the legislature wanted to give a restricted meaning in the manner suggested by the learned Solicitor-General, it has used the expression "derived from", as, for instance, in section 80J. In our view, since the expression of wider import, namely, "attributable to", has been used, the legislature intended to cover receipts from sources other than the actual conduct of the business of generation and distribution of electricity." (emphasis supplied)

17.3 Therefore, the word "attributable to" is certainly wider in import than the expression "derived from". Whenever the legislature wanted to give a restricted meaning, they have used the expression "derived from". The expression "attributable to" being of wider 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. 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, the society 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.

17.4 In this context when we look at the decision of Hon'ble Supreme Court in case of Totgars Co-operative Sale Society's case reported in (2010) 188 Taxman 282, relied by the Ld.DR. Hon'ble Supreme Court was dealing with a case where the assessee therein, apart from providing credit facilities to the members, was also in the business of marketing of agricultural produce grown by its members. The sale consideration received from marketing agricultural produce of its members was retained in many cases. The said retained amount payable to its members from whom produce was bought, was invested in a short-term deposit/security. Such amount retained by the assessee therein 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 under Section 80P(2)(a)(iii) of the Act. On these facts Hon'ble Supreme Court held the assessing officer was right in taxing the interest income indicated above under Section 56 of the Act. Hon'ble Supreme Court, also clarified that, they are confining the said judgment to the facts of that case.

17.5 In the instant case, there is nothing on record to come to the conclusion that the amount which was invested in banks to earn interest was amount due to its members, and that, it was a liability. In fact this amount which is in the nature of profits and gains, was not immediately required by the assessee for objects of the society, but was required to be invested as required by the Karnataka Co-operative Societies Act, 1959. Therefore they had deposited the money out of which interest was earned. The said interest is thus attributable to carrying on the business of the assessee and therefore it is liable to be deducted in terms of Section 80P(2)(d) of the Act. In fact similar view is taken by the Hon'ble Andhra Pradesh High Court in the case of CIT v. Andhra Pradesh State Co-operative Bank Ltd. reported in [2011] 12 taxmann.com 66.

13. Before us, the learned DR did not bring any material suggesting any change in facts of the case in earlier years as discussed above viz-a-viz year under consideration or the above finding of the Tribunal been overruled at the higher forum. Hence, respectfully following the decision of Tribunal in own case of the assessee, we hold that the assessee is eligible for deduction under section 80P(2)(a)(i) of the Act for the interest on investment.

14. Without prejudice to the above and even assuming that the interest income on investment was earned from investment other than statutory compulsory deposits/investment, we note that the revenue's views that such interest on investment/deposit with 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 are largely based on the ruling of Hon'ble Supreme Court in the case of Totgars, Co-Operative Sales Society Ltd Vs. ITO (supra). In this regard, we find that the ratio laid down by the Hon'ble Supreme Court in the Totgars, Co-Operative Sales Society Ltd Vs. ITO (supra) was

distinguished by the Hon'ble Jurisdictional 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. The Hon'ble High Court found that 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 deposit 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."

14.1 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.

14.2 Furthermore, the Hon'ble Karnataka High Court followed the principle laid down in *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.

14.3 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].

14.4 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.

14.5 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.*

14.6 From the preceding discussion of the ratio laid down by the Hon'ble High Court of Karnataka, Kerala, and Calcutta, we hold the dispute 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.

14.7 It is 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 Hon'ble

Courts and Tribunals within its territorial jurisdiction. Consequently, the Tribunal is bound to follow the law laid down by the Hon'ble Jurisdictional High Court while deciding matters arising within that State.

14.8 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 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 enforcement 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 superintendence 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, therefore, hold that the law declared by the highest court in the State is binding on authorities or tribunals under its superintendence, 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 invalid and the proceedings themselves would be without jurisdiction.

14.9 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 *Vattiana 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. ...

14.10 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. 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. In view of the preceding discussion the present assessee is eligible for deduction under section 80P(2)(a)(i) of the Act on the interest on deposit for Rs. 16,59,75,767/- only.

Now, we proceed to deal with issue of interest on other advances for Rs. 1,77,67,660/-.

15. We note that interest incomes on other advances comprise 3 components which are detailed as under:

i.	Interest on loan against fixed deposit	Rs. 1,12,73,336/-
ii.	Interest on staff loan	Rs. 59,24,664/-
iii.	Interest on branch office loan	Rs. 5,69,660/-

15.1 As far as the issue of interest on staff loan is concerned, we find that same is covered against the assessee by the order of this tribunal in own case of the assessee for the A.Y. 2012-13 to 2018-19 & 2020-21 in ITA No. 1052 to 1060/Bang/2023. The relevant finding of the tribunal is extracted as under:

16.3 In so far as interest earned from the loan extended to the employees of the assessee are concerned, the arguments advanced by the Ld.AR do not support the scheme of the Act under section 80P(2)(a). What is allowable under the section has been expressly provided for therein. As per section 80P, an income which is attributable to any of the specified activities in Section 80P(2) of the Act could be only eligible for deduction. Providing loan to the employees cannot be considered as, "attributable" to the business of the assessee, as the term "attributable to the business" is much narrow term, which is directly connected to the objects of the assessee for which it has been established. We therefore hold that, the interest earned by the assessee from loan give to its employees cannot be considered for deduction under section 80P(2)(a) (i) of the Act. It has to be treated as income form other sources. Accordingly we hold that the interest earned from the credit activities of the assessee to its members including nominal / associate is allowable under section 80P(2)(a)(i) of the act. We also hold that the interest earned by the assessee from loan to its employees are to be treated as Income from other sources, not eligible for deduction under the provisions of Section 80P.

15.2 Hence respectfully following the finding of the Tribunal in own case of the assessee for earlier year, we hold that the assessee is not entitled to deduction under section 80P(2)(a)(i) of the Act on the receipt of interest on staff loan for Rs. 59,24,664/- only.

16. Coming to the issue of interest on loans against the FD, we note that the consistent argument of the assessee is that the loan under this scheme was exclusively extended to the nominal/associate member as well as to the staff. The issue of interest arising from loan to nominal/associate member has been held in favour of the assessee by the order of this Tribunal in own case of the assessee for the A.Y. 2012-13 to 2018-19 & 2020-21 in ITA No. 1052 to 1060/Bang/2023. The relevant finding of the tribunal is extracted as under:

16.1 We note that, Karnataka Co-operative Societies Act, 1959 defines Members to include nominal / associate members u/s. 2(f). Considering the definition of "Member" under the Karnataka Co-operative Societies Act, the present assessee qualifies for deduction u/s. 80P(2)(a)(i). At the cost of repetition, we draw reference from following observations of Hon'ble Supreme Court in case of Mavilayi Service Co- operative Bank Ltd. v. CIT (supra):-

"46. It must also be mentioned here that unlike the Andhra Act that Citizen Cooperative Society Ltd. (supra) considered, 'nominal members' are 'members' as defined under the Kerala Act. This Court in U.P. Cooperative Cane Unions' Federation Ltd. v. CIT [1997] 11 SCC 287 referred to section 80P of the IT Act and then held:

"8. The expression "members" is not defined in the Act. Since a cooperative society has to be established under the provisions of the law made by the State Legislature in that regard, the expression "members" in Section 80- P(2)(a)(i) must, therefore, be construed in the context of the provisions of the law enacted by the State Legislature under which the cooperative society claiming exemption has been formed. It is, therefore, necessary to construe the expression "members" in Section 80- P(2)(a)(i) of the Act in the light of the definition of that expression as contained in Section 2(n) of the Cooperative Societies Act. The said provision reads as under:

"2. (n) 'Member' means a person who joined in the a pplication for registration of a society or a person admitted to membership after such registration in accordance with the provisions of this Act, the rules and the bye-laws for the time being in force but a reference to 'members' anywhere in this Act in connection with the possession or exercise of any right or power or the existence or discharge of any liability or duty shall not include reference to any class of members who by reason of the provisions of this Act do not possess such right or power or have no such liability or duty;""

Considering the definition of 'member' under the Kerala Act, loans given to such nominal members would qualify for the purpose of deduction under section 80P(2)(a)(i)."

16.2 Accordingly, respectfully following the above ratio, we allow the claim of the assessee u/s. 80P(2)(a)(i) of the act in respect of the interest earned by the assessee from credit facilities extended to members that includes nominal / associate members.

16.1 Hence, respectfully following the finding of the Tribunal in own case of the assessee for earlier year, we hold that the assessee is entitled to deduction under section 80P(2)(a)(i) of the Act on the receipt of interest on loan against FD to nominal/associate members. However,

deduction for interest received from staff on such loan against FD shall not be allowed unless such staff is also a nominal/associate member of the assessee. Considering the fact that interest on loan against FD includes staff as well as member, we hereby restore the issue to the file of the AO. The AO shall verify the necessary details and work out the amount of interest from members or non-members staff and accordingly decide the issue afresh as per law. If any amount of interest on loan against FD is held not eligible for deduction under section 80P of the Act, then the assessee shall be entitled to deduction of corresponding expenditure as the provision of section 57 of the Act.

17. Now coming to the interest on branch office loan of Rs. 5,69,660/- only, in our considered view, the head office and its branch office are not separate taxable entities but constitute the same assessee. Therefore, any interest credited by the branch office to the head office is merely an internal accounting adjustment within the same entity and does not give rise to real income chargeable to tax. Consequently, the corresponding claim of deduction u/s 80P(2) becomes revenue neutral, since the income and expenditure remain within the same assessee. In these circumstances, the addition made by the AO on this account is unsustainable and does not call for interference.

Lastly, we proceed to deal with the issue of other income of Rs. 83,31,614/- only.

18. We find that there were various types of receipts/or income included under the head of other income which are detailed as under:

Particular	Amount (Rs.)
Rent on building	15,57,093
Vehicle hire charges recovered from PCARDBs	2,96,000
Miscellaneous receipts	1,43,307
Service charges received from PCARDBs for sale of books and forms	2,404
Commission on ITGI premium account	56,08,835
Counter interest on loans (income)	4,35,019
Commission on e-stamping account	75,682
Rent on jewel safe locker	15,605
Processing fee	67,983
Share fee	77,866
Nominal membership fee income	51,820

18.1 The first item under the head 'other income' is rent on building. The learned AR before us claimed that the rent on building has been treated separate income under the head income from house property. To verify the claim of the learned AR, we perused the copy of ITR Form which is placed on 3 to 76 of the paper books. On perusal of schedule of house property of the ITR, we find that the assessee offered the impugned rental income of Rs. 15,57,093/- as income from house property. Therefore, in our considered view disallowances made by the AO under section 80P(2) of the Act on the amount of rent on building for Rs. 15,57,093/- shown in profit & loss account under the head other income is misplaced and amounts to double taxation. Accordingly, the disallowances of other income under section 80P(2) of the Act to the extent of Rent on building for Rs. 15,57,093/- is directed to be deleted.

18.2 Likewise, we are of the considered opinion that the receipts such as vehicle hire charges from PCARD of Rs. 2,96,000/-, service charges from PCARD for sale of books and form of Rs. 2404, Rent on jewel safe locker of Rs. 15,605, processing fee of Rs. 67,983/-, share fee of Rs. 77,866/- and nominal membership fee of Rs. 51,820/-, are directly linked to the assessee's business of carrying banking business and providing credit facility to the members. Therefore, we hold that the assessee is eligible for deduction under section 80P(2)(a)(i) of the Act on such receipts attributable to the business of the assessee. Hence, the AO is directed to delete the disallowance or addition to that extent.

18.3 Coming to receipt of counter interest on loan for Rs. 4,35,019/- only. The learned AR before us submitted that the impugned receipt represents the amount received at branch/HO from PCARD as final interest computed at the time of discharge of loan. Accordingly, the learned AR claimed that the impugned interest income arising from members. At the outset, we note the AO made disallowance of other income in which impugned interest income is included based on nomenclature without going into detail. The learned CIT(A) also without going into details confirmed the disallowances/addition made by the AO. The learned AR before us claimed that the other income included interest income from member loan. Since the AO and the learned CIT(A) have not verified the claim of the assessee, we therefore for the sake of justice and fare play set aside the issue of claimed counter interest on loan for Rs. 4,35,019/- to the file of the AO. The AO is directed to verify the claim of the assessee and allow the deduction under section

80P(2)(a)(i) of the Act as per law if found that same is arising from the loan to the PCARD members.

18.4 Moving to the receipt of commission on e-stamping for Rs. 75,682/- only. At the outset, we note that the issue of eligibility of deduction under section 80P(2) of the Act on the receipt of e-stamping commission is covered against the assessee by the order of Tribunal in own case of the assessee for A.Y. 2012-13 to 2018-19 & 2020-21 in ITA No. 1052 to 1060/Bang/2023. The relevant findings of the Tribunal are extracted as under:

20.4 Identical issue has been analysed hereinabove while considering the interest earned by the assessee from staff loan. We rely on the observations made in para 16.3 and hold that the income earned by the assessee from E stamping cannot be considered for the purpose of deduction under section 80P(2) of the act.

However, we direct the Ld.AO to consider the alternate claim of the assessee in accordance with law. Needless to say that proper opportunity of being heard must be granted to the assessee.

18.5 Hence respectfully following the order of the Tribunal in own case of the assessee, we hold that the assessee is not eligible for deduction under section 80P(2) of the Act on the receipt of e-stamping commissions. However, the assessee shall be entitled to the deduction of corresponding expenses as per the provisions of section 57 of the Act.

18.6 Likewise, we note that the other income includes miscellaneous receipts of Rs. 1,43,307/- only. As per the assessee miscellaneous receipts include small sums not specifically categorized but constitute business receipts.

18.7 From the details placed on record, it is evident that the assessee has not furnished any clear break-up or nature-wise explanation of these

receipts to establish that the same are arising from or are attributable to the business of providing credit facilities to the members. In the absence of proper particulars, it is not possible to ascertain whether these receipts have any direct nexus with the core activity of the assessee. The onus is on the assessee to demonstrate that the income qualifies for deduction u/s 80P(2)(a)(i) of the Act. Mere classification of receipts as miscellaneous, without substantiating their nature and nexus with the eligible activity, is not sufficient to claim deduction. In our considered view, such unspecified and unsubstantiated receipts cannot be presumed to be attributable to the business of providing credit facilities. In the absence of any material to establish a proximate nexus, the same cannot be brought within the ambit of section 80P(2)(a)(i) of the Act. Accordingly, we hold that the miscellaneous receipts of Rs. 1,43,307/- are not eligible for deduction u/s 80P(2)(a)(i) of the Act. The orders of the AO and the Ld. CIT(A) on this issue are upheld. However the AO shall provide the deduction of corresponding expenditure as per the provision of the Act.

19. Finally coming to the receipt of commission on ITGI premium account of Rs. 56,08,835/- only, in this regard, we note that the assessee has entered into agreement with IFCO-Tokio General Insurance Ltd (ITGI) to enable the farmers who are member of PCARD to ensure their agriculture machinery, equipment, livestock, assets etc. The ITGI pays commission to the assessee on the insurance premium paid by the farmers. The argument of the learned AR is that enabling the farmer to ensure their assets which are ultimately finance by the assessee is inextricably linked to the assessee business. Therefore, the impugned receipt is eligible for deduction under section 80P(2)(a)(i) of the Act.

19.1 The facts on record show that the assessee has entered into an arrangement with the insurance company for facilitating insurance of assets of farmers, for which it earns commission on the premium paid. This activity, in our view, is in the nature of a facilitation or agency service rendered to the insurance company which is distinct from the core activity of the assessee of providing credit facilities to its members. The source of income is the agreement with the insurance company and not the activity of lending or providing credit to members.

19.2 The contention of the learned AR that such activity is inextricably linked with the business of the assessee is not acceptable. Merely because the assets insured are those financed by the assessee does not alter the character of the receipt. The immediate and effective source of the commission income is the service rendered to the insurance company and not the provision of credit facilities. Therefore, the nexus between the impugned income and the business of providing credit facilities to members is only incidental and not direct.

19.3 It is settled position that for claiming deduction u/s 80P(2)(a)(i) of the Act, the income must be attributable to the activity of providing credit facilities to members. The expression "attributable to" though wider, still requires a proximate and real connection with the specified activity. In the present case, the commission income arises from a separate commercial activity of earning commission from a third party, which cannot be said to be integral to the business of providing credit facilities. Accordingly, we hold that the commission income of Rs.

56,08,835/- does not qualify for deduction u/s 80P(2)(a)(i) of the Act. Hence, the orders of the AO and the Ld. CIT(A) on this issue are upheld.

19.4 In view of the above detailed discussion the grounds of appeal raised by the assessee on the issue of disallowances of deduction claimed under section 80P(2)(a)(i) of the Act is partly allowed in favour of the assessee for statistical purposes.

20. The **second issue** raised by the assessee is related to the disallowance of provision for bad and doubtful debts to the tune of ₹ 1,15,39,244/- and contribution towards welfare fund to the tune of ₹ 3,12,323/- only.

21. The brief facts are that the assessee in the Profit & Loss account debited a sum of ₹ 1,15,39,244/- under the nomenclature of provision of doubtful debts. The AO in the SCN issued to assessee, called upon the assessee to furnish justification for the said expenditure. As no justification was filed before the AO, the AO disallowed the claim of the assessee.

21.1 Likewise, the AO noted that the employee's contribution toward welfare fund contribution fund for Rs. 3,12,323/- was deposited after due date and therefore the same was proposed to bring to tax as per section 36(1)(ii) of the Act. In absence of any reply from the assessee, the sum of Rs. 3,12,323/- was treated as income of the assessee u/s 36(1)(ii) of the Act.

22. Aggrieved assessee preferred an appeal before the learned CIT(A).

23. The assessee before the learned CIT(A) submitted that the AO enhanced the business income by adding ₹ 1,15,39,244/- & ₹3,12,323/- to the returned income but failed to allow deduction under section 80P(2)(a)(i) of the Act on such enhanced income. It was submitted that the disallowance of provision for doubtful debts of ₹1,15,39,744 and contribution towards welfare fund of ₹3,12,323 resulted in enhancement of business income and the same is eligible for deduction under section 80P(2)(a)(i) of the Act.

23.1 It was further submitted that there is no separate computation of income from other sources in the assessment order and the AO has wrongly subjected eligible business income to tax by reducing the deduction under Chapter VI-A of the Act. The assessee placed reliance on the decision of the ITAT, Bangalore Bench in *Sharavati Pathina Sahakara Sangha Niyamitha v. ITO* and also on CBDT Circular No. 37/2016 dated 02.11.2016 to contend that deduction under Chapter VI-A is allowable on enhanced profits arising out of disallowances.

24. The learned CIT(A) considered the materials available on record and noted that the AO disallowed a sum of ₹1,15,39,744/- claimed as provision for doubtful debts on the grounds that the same represents an unascertained liability which is not allowable under the Act. The contention of the assessee that the provision represents expected loan defaults was not accepted. Reliance was placed on the judgment of the Hon'ble Supreme Court in *Southern Technologies Ltd. v. JCIT* (320 ITR

577), wherein it was held that a mere provision for doubtful debts is not allowable unless the amount is actually written off in the books of account.

24.1 The learned CIT(A) further observed that a sum of ₹3,12,232/- relating to delayed deposit of employees' contribution to welfare funds was rightly disallowed under section 36(1)(va) of the Act. The assessee had admitted the disallowance but contended that the same should be considered while computing deduction under section 80P of the Act. The Ld. CIT(A) rejected this contention by relying on the decision of the Hon'ble Supreme Court in *Checkmate Services Pvt. Ltd. v. CIT* (448 ITR 518), wherein it was held that employees' contributions deposited beyond the due date prescribed under the respective welfare statutes are not allowable deduction, even if paid before the due date of filing of return of income. The Ld. CIT(A) held that both the disallowances are in accordance with settled legal position and do not call for any interference. It was further held that the assessee is not entitled to deduction under section 80P(2)(a)(i) on income enhanced due to such disallowances, as the deduction is allowable only on income attributable to eligible business activity and not on income resulting from tax adjustments. Accordingly, the grounds raised by the assessee were dismissed.

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

26. The Ld. AR before us submitted that the disallowances made on account of provision for doubtful debts and delayed deposit of employee

welfare contributions merely result in enhancement of business income. The Ld. AR further contended that such enhanced income continues to be eligible for deduction under section 80P(2)(a)(i) of the Act. The Ld. AR placed reliance on the decision of the ITAT in Sharavati Pathina Sahakara Sangha Niyamitha, the judicial precedents relied upon therein including that of the Hon'ble Jurisdictional High Court, and CBDT Circular No. 37/2016 dated 02.11.2016.

27. On the other hand, the Ld. DR before us submitted vehemently supported the order of lower authorities.

28. We have heard the rival contentions of both the parties and perused the material available on record. It is an undisputed fact that the disallowances made by the AO on account of provision for doubtful debts and delayed deposit of employee welfare contributions have resulted in enhancement of the business income of the assessee. The assessee is otherwise eligible for deduction under section 80P(2)(a)(i) in respect of income derived from providing credit facilities to its members. We find merit in the contention of the assessee that once the income is assessed as business income attributable to the eligible activity, the deduction under section 80P(2)(a)(i) of the Act cannot be denied merely because such income has arisen on account of disallowance of expenditure. This position is supported by the decision of the Bangalore Bench of the Tribunal in Sharavati Pathina Sahakara Sangha Niyamitha v. ITO and also by CBDT Circular No. 37/2016 dated 02.11.2016, which clarifies that deduction under Chapter VI-A is allowable on profits enhanced due to disallowances relating to the eligible business.

28.1 Respectfully following the aforesaid decision and the CBDT Circular, we hold that the enhanced business income on account of the impugned disallowances is eligible for deduction under section 80P(2)(a)(i) of the Act. Accordingly, this ground of appeal raised by the assessee is allowed.

29. In the result the appeal of the assessee is partly allowed for statistical purposes.

Order pronounced in court on 9th day of April, 2026

Sd/-

(KESHAV DUBEY)

Judicial Member

Bangalore

Dated, 9th March, 2026

/ vms /

Sd/-

(WASEEM AHMED)

Accountant Member

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