

M/s. The Totgars' Cooperative Sale Society Limited v. Income Tax Officer, Karnataka

Civil Appeal No. 1622 of 2010 and connected proceedings (full list below)

[2010] 2 SCR 496 | 2010-02-08

Whether interest on short-term bank deposits and securities funded from the society's retained member-sale-proceeds liabilities qualified under section 80P(2)(a), whether reopening sanction existed before notice, and whether expenditure against the section 56 interest required consideration under section 57.

80P(2)(a)(i) | 80P(2)(a)(iii) | 28 | 56 | 57 | 148 | 151

Two-judge bench | S.H. Kapadia, J. | Aftab Alam, J.

Assessment years: 1991-92, 1992-93, 1993-94, 1994-95, 1996-97, 1997-98, 1998-99, 1999-2000

Fact-bound cooperative-interest holding and limited expense remand

Totgars concerns interest on retained sale proceeds owed to members, recorded as liabilities and temporarily invested, for the historical assessment years stated. It is not an unqualified exclusion of every cooperative interest receipt from section 80P. The section 57 expense question was remitted, not decided. Verify the applicable statutory version and subsequent treatment; no current-law or Income-tax Act, 2025 carryover certification is supplied.

01 FACTS OF THE CASE

The society provided credit facilities to members and marketed their agricultural produce. The eight appeals concerned AYs 1991-92 to 1999-2000, excluding 1995-96. It disclosed business income and claimed section 80P(2)(a)(i) deduction for interest earned on surplus invested in short-term bank deposits and Government securities. The assessments were reopened; the Assessing Officer, Tribunal and Karnataka High Court treated the disputed interest as income from other sources (paragraphs 3-7).

The decisive fund facts appear in paragraph 10: the society retained agricultural sale proceeds payable to members; those retained amounts were liabilities shown on the liability side of its balance sheet. As those funds were not immediately required for its business, it invested them in deposits/securities. The disputed interest was not interest received from members for providing credit. The society argued that prudent temporary investment and the asserted cooperative-law investment obligation made the receipts eligible, or that section 80P could still apply despite section 56 classification (paragraphs 8-10).

It also challenged reopening on the ground that written sanction reached the Assessing Officer on 8 June 2001 after notices served on 31 May 2001, and sought deduction of funding costs and proportionate administrative/other expenses against the interest (paragraphs 12-14).

Source: [reported judgment / paragraphs 3-8, including liability table following 6 / PDF pages 5, 6, 7, 8, 9, 10 / judicial text](#); [reported judgment / paragraphs 10: retained sale proceeds, member liabilities and disputed interest / PDF pages 11, 12, 13 / judicial text](#); [reported judgment / paragraphs 12-14: other questions / PDF pages 14, 15, 16 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 80P(2)(a) requires profits and gains of business attributable to an enumerated activity. The inclusive definition of income does not eliminate that qualification. On the particular facts, interest from investing retained proceeds owed to members, and not then required for business, was section 56 income rather than operational income attributable to member-credit or produce-marketing activities. The Court repeatedly distinguished interest paid by members on credit facilities from the investment interest before it (paragraphs 9-10).

The alternative deduction argument failed. Each comparative deduction provision had to be construed in its own setting; the export-deduction wording did not override section 80P's business-income requirement. Authorities concerning cooperative banks were not applied because this society was not carrying on banking business. Paragraph 11 expressly confines the judgment to the present facts (paragraph 11).

On reopening, the Court distinguished granting sanction from communicating it. The Tribunal had found from earlier correspondence that approval under sections 148/151 existed before 31 May 2001, notwithstanding later written communication. The Court declined to disturb that factual finding; it did not dispense with prior sanction. The separate cost-of-funds and expense question under sections 56/57 had remained unanswered and required a High Court decision (paragraphs 13-15).

Source: [reported judgment / paragraphs 9-15 / PDF pages 10, 11, 12, 13, 14, 15, 16 / judicial text](#)

03 JUDICIAL DECISION

The Court sustained section 56 treatment and rejection of section 80P deduction for the specified investment interest, and rejected the sanction challenge on the Tribunal's factual finding. It remitted only the unresolved sections 56/57 question concerning cost of funds and proportionate administrative/other expenses to the High Court. Subject to that remittal, all eight assessee appeals were dismissed without costs (paragraphs 10-16).

Source: [reported judgment / paragraphs 10-16 / PDF pages 13, 14, 15, 16 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on classification, section 80P deduction and reopening; expense issue remitted without a merits winner

All eight assessee appeals dismissed subject to remittal of the sections 56/57 expense question to the High Court; no costs

Classification/deduction and sanction challenge decided; expense deduction left for High Court consideration

Limited to the retained member-sale-proceeds liabilities invested when not immediately required for business. Neither a universal denial for all cooperative interest receipts nor a final disallowance or allowance of section 57 expenditure.

Source: [reported judgment / paragraphs 6, 13-16: eight appeals, factual sanction finding and qualified dismissal / PDF pages 6, 15, 16 / judicial text](#)

05 AKHB REVIEW POINT

Begin with fund tracing and balance-sheet character: identify whose money was retained, the liability to members, its business use at the relevant time and the precise income stream. Preserve the Court's distinction between member-loan interest and investment interest on retained sale proceeds. The society's credit activity alone did not answer the classification question, but the judgment expressly limits itself to its own facts and does not determine every interest receipt of every cooperative society or bank.

Keep three outcomes separate: the section 80P claim failed; the prior-sanction finding survived; and expenditure against the taxable interest remained open on the express sections 56/57 remand. Do not infer that the Court taxed gross interest without permissible expenses or that delayed communication can cure an actually absent prior sanction. The relevant historical statutory version and any subsequent treatment must be checked before applying these points elsewhere.

Source: [reported judgment / paragraphs 10-16 / PDF pages 11, 12, 13, 14, 15, 16 / judicial text](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 1622 of 2010 / Civil Appeal No. 1623 of 2010 / Civil Appeal No. 1624 of 2010 / Civil Appeal No. 1625 of 2010 / Civil Appeal No. 1626 of 2010 / Civil Appeal No. 1627 of 2010 / Civil Appeal No. 1628 of 2010 / Civil Appeal No. 1629 of 2010

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Head of income and section 80P deduction for the identified investment interest

Result: Taxable under section 56; not deductible under section 80P(2)(a)(i)/(iii) on these facts

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 11; 12; 13; 14

Paragraphs: 10-11

Source role: judicial text

2.

Issue: Prior sanction for reopening

Result: Tribunal finding that sanction existed before 31 May 2001 left undisturbed; later written communication did not establish absence of prior approval

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 14; 15

Paragraphs: 12-13

Source role: judicial text

3.

Issue: Funding costs and proportionate administrative/other expenses under sections 56/57

Result: Remitted to the High Court for consideration in accordance with law; no substantive allowance or disallowance ordered

In whose favour: Undecided on remand

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 15; 16

Paragraphs: 14-16

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

2(24)(i); 80P(1); 147; 144A; 80HHC Explanation (baa); 80HHD(3); 80HHE(5); 72; 32AB

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.H. Kapadia, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 16 PDF pages; SHA-256

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Judicial paragraphs 1-16 on physical pages 5-16 (SCR 500-511), including the liability table on physical page 7, fully read.

Physical pages 1-4 and opening of page 5 contain editorial headnote/report material; jurisdiction and appearances precede the judicial text on page 5. No adjacent judgment.

Open cited source rendition

Paragraphs 5-6 expressly cover AYs 1991-92 through 1999-2000 except 1995-96, with AY 1991-92 narrated as the lead. The liability table nevertheless includes a 1995-96 row; it is not treated as another appealed assessment year.

The merits concern classification and section 80P deduction for the particular investment interest; the sanction challenge concerns sections 148/151. The sections 56/57 expense question was remitted, not finally decided. Export-deduction and other comparative provisions were raised in argument, not independent claims for relief.

The preserved reported eSCR rendition is the primary source; no separately retrieved signed original is claimed. Public URLs are cached acquisition URLs, not newly live-validated links. References to other decisions reproduce this judgment's discussion only; their originals and comprehensive subsequent treatment have not been checked in this review.; The WITH line on physical page 5 repeats Civil Appeal No. 1625/2010. Eight unique numbers (1622-1629) and paragraph 6's express eight-appeal statement control the count; the duplicated printed entry is disclosed rather than converted into a ninth case.; The physical-page-7 liability table includes AY 1995-96, expressly excluded from the appealed years in paragraphs 5-6. No deduction amount or case-year mapping is inferred from the table.; The headnote's short dismissal label omits the qualification necessary to understand the operative result: paragraphs 14-16 remit the expense question and dismiss subject to that remittal.

The report identifies Civil Appeal No. 1622/2010 and companions 1623-1629/2010. Its WITH line prints 1625 twice; the unique numbered appeals total eight, matching paragraph 6. Paragraph 5 identifies the lead as arising from SLP(C) No. 7572/2009 and concerning AY 1991-92. No individual matching of every assessment year to every civil appeal is supplied.

STATUTORY SCOPE

Historical Income-tax Act, 1961 provisions and assessment years only. No automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment or present-law audit has been performed. Any source-checked comparison is expressly bounded.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 16](#)

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