

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1729

ANSWERED ON:19.11.2010

WITHDRAWAL OF REBATE FROM CO-OPS

Bairwa Shri Khiladi Lal;Hazari Shri Maheshwar ;Meghwal Shri Bharat Ram;Patel Shri Devji

Will the Minister of FINANCE be pleased to state:

- (a) the amount of revenue realized since withdrawal of exemption granted to cooperatives under section 80(P) of the Income Tax Act, 1961, State/zone-wise;
- (b) whether various States including Bihar have made a request to review the same; and
- (c) if so, the details thereof and the action taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE:(SHRI S.S. PALANIMANICKAM)

(a) Prior to the withdrawal of this exemption in the case of co-operative societies and banks, the revenue foregone on account of tax benefits under section 80P for the year 2005-06 was Rs. 1632 crores. This has reduced by Rs. 1366 crores to Rs. 266 crores for 2006-07, which is the first financial year after the withdrawal of the said exemption.

(b) & (c) The Government has received representations from various quarters seeking restoration of the deduction under Section 80P of the Income-tax Act, 1961 to all cooperative banks. In view of the reasons spelt out below, the Government did not find it feasible to accede to these requests:

1. Prior to its amendment by the Finance Act 2006, section 80P of the Income-tax Act, 1961 provided for a deduction of the whole of the profits of a cooperative society, attributable to the business of banking or providing credit facilities to its members, or of a cottage industry or of marketing of agricultural produce of its members, or to the business of processing of the agricultural produce of its members, without the aid of power etc.

2. The Finance Act 2006 withdrew the tax benefits to co-operative banks under Section 80P of the Income-tax Act on the following grounds:-

(i) Co-operative banks are like any other bank and the principle of mutuality does not apply because their area of operations extends even to non-members.

(ii) Most of these banks are providing standard banking facilities like opening of letters of credit, bill discounting and collection, lockers and safe deposit vaults, bank guarantees etc. Many of these deal in foreign exchange and have also opened ATM kiosks. These banks are thus no different from commercial banks and therefore are not eligible for preferential tax treatment.

(iii) It is in consonance with the objective of the Government to expand the tax base by phasing out all exemptions that are considered economically inefficient and inequitable.

(iv) Income-tax is a tax on profits and there is no rationale for exempting profit-making co-operative banks from payment of income-tax.

3. Despite this, out of around 97,782 co-operative banking/credit institutions, a large majority of the co-operative banking institutions have been kept out of the tax net because almost 94,942 Primary Agricultural Credit Societies (PACS) and 697 Primary Co-operative Agriculture and Rural Development Banks (PCARDS) are outside the purview of the amendment. The PACS and PCARDS constitute about 98% of the total co-operative banks or banking institutions. Thus, the amendment is applicable only to the remaining 2% of the co-operative banking institutions, which are about 2143 in number.

4. It would be pertinent to mention that, vide Finance Act, 2007, the following benefits have been extended to cooperative banks:-

- a. Deduction for provision for doubtful debts, available so far to banking companies, has been extended to cooperative banks;
- b. Deduction in respect of special reserve to the extent of 20% of profit, available to financial corporations and banks, has been extended to cooperative banks;
- c. Carry forward and set off of business losses has been allowed in the event of amalgamation of a loss making cooperative bank with

another cooperative bank.

With this, co-operative banks have been brought at par with commercial banks in so far as the Income-tax Act is concerned.