

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1405
ANSWERED ON:18.07.2014
TAX REBATE TO COOPERATIVE BANKS
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Union Government has proposed to bring the cooperative banks under the ambit of income tax by putting the cooperative banks in the category of commercial banks;
- (b) if so, the details thereof and the reasons therefor;
- (c) whether the Union Government has received any proposal from State Governments including Rajasthan for Income Tax rebate under Section 80(p) of Income Tax Act, 1961 to the cooperative banks; and
- (d) if so, the details thereof alongwith the action taken/being taken by the Union Government in this regard?

Answer

FINANCE MINISTER (SHRI ARUN JAITLEY)

(a&b) 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 in the case of a co-operative society engaged in carrying on the business of banking or providing credit facilities to its members, or a cottage industry, or the marketing of agricultural produce grown by its members, or the processing of the agricultural produce of its members without the aid of power, etc.

The Finance Act, 2006 withdrew the tax benefits to co-operative banks other than primary agricultural credit societies (PACS) or primary co-operative agricultural and rural development banks (PCARDBs) 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.

Further, the following benefits have also been extended to co-operative banks which have been taken out from the purview of section 80P:-

- a. Deduction for provision for doubtful debts, available so far to banking companies, has been extended to co-operative 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 co-operative banks;
- c. Carry forward and set off of business losses has been allowed in the event of amalgamation of a loss making co-operative bank with another co-operative bank.

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

(c)&(d) 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 above, the Government did not find it feasible to accede to these requests.