

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:402

ANSWERED ON:12.05.2006

INCOME TAX ON CO- OPERATIVE BANKS

Joshi Shri Pralhad Venkatesh;Patil Shri Shriniwas Dadasaheb

Will the Minister of FINANCE be pleased to state:

- (a) the total number of co-operative banks functioning in the country and the number of profit-earning banks out of them;
- (b) the tax collected from the co-operative banks during the last three years on their income;
- (c) whether large scale protests have been registered by the co-operative banks against the recently introduced changes in the Income Tax structure pertaining to such banks;
- (d) if so, the details thereof;
- (e) whether the Government proposes to review the position; and
- (f) if so, the steps proposed to be taken to protect the interests of the co-operative banks?

Answer

MINISTER OF FINANCE: (SHRI P. CHIDAMBARAM)

(a) to (f): A statement is laid on the Table of the House.

Statement referred to in reply to the Lok Sabha Starred Question No. 402 raised by Shri Shriniwas Dadasaheb Patil and Shri Pralhad Joshi, Members of Parliament, for 12.5.2006 regarding "Income Tax on Co-operative Banks".

(a) The total number of Co-operative Banks functioning in the country and the number of profit making banks out of them are as follows:-

S.No.	Type of	No. of banks	No. of profit
	Co-operative	as on 31.3.2005	making banks
	Banks	as on 31.3.2005	
		(provisional)	

1. Primary	105735	Not Available
Agriculture		
Credit Societies		
2. Primary Co-	727	221
operative		
Agriculture and		
Rural Development		
Bank		
3. State Co-	31	26
operative Banks		
4. District Central	361	288
Co-operative		
Banks		
5. State Co-	20	11
operative		
Agriculture and		
Rural Development		
Bank		
6. Urban Co-	1872	1357
operative Banks		
7 Total	108746	

(b) On account of the tax benefit under section 80 P, the income of co-operative banks from banking operations was exempt from tax. If income arose to the banks from other activities, it is not quantifiable. Besides, figures of such tax collection are not separately maintained.

(c) & (d) A number of representations have been received from the co-operative banks requesting restoration of the tax benefit under Section 80P of the Income-tax Act, as it stood before amendment.

(e) & (f) The withdrawal of tax benefit under Section 80P to co-operative banks is, inter-alia, justified 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 extend even to non-members.

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

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

Despite this, out of 1,08,746 co-operative banks/banking institutions, a large majority of the co-operative banking institutions has been kept out of the tax net because 1,05,735 Primary Agricultural Credit Societies (PACS) and 727 Primary Co-operative Agriculture and Rural Development Banks (PCARD) 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 only 2284 in number. Since the tax has to be paid only by the profit making banks, the withdrawal of the exemption will be applicable only to 1682 banks as per the latest figures available.

Parliament has passed the Finance Bill 2006. Government does not propose to review the decision of withdrawing the benefit under Section 80P of the Income-tax Act available to co-operative banks.