No. Date:

Dear Shri Arun Jaitleyji

Pre-Budget (2019-20) submission to restore Income Tax exemption to Co-operative Banks (UCBs).

The unorganized sector in India accounts for a substantial portion of GDP and a very large segment of population is involved and dependent upon this sector.We also find that the Country is getting confronted with the challenge of providing gainful employment to increasingly high proportion of rural youth who are not been able to be accommodated in the direct agricultural operations.Failure to do so would result in continuation of mass migration to cities which are already choked and are unable to absorb them.This aspect of rural distress(apart from direct farm distree) would be explosive in days to come.It also has direct bearing on urban unrest.

The formal credit delivery system has not been able to meet the credit needs of unorganized sector. The cooperative banks have been channeling a large part of their lendable resources in providing credit to unorganized sector in urban and rural areas in many states and this has been the forte' of cooperative banks.In Gujarat in particular,cooperative banks and cooperative credit societies have been the backbone of entrepreneurship for over half a century. Lakhs of self employed persons in the unorganized sector in the state earn their livelihood thanks to the financial support provided by cooperatives of which they are members. Small and marginal farmers in the state are financed by cooperative banks. This is also scenario in many other states like Maharashtra, Karnataka, Andhra Pradesh, Tamil Nadu, Rajasthan Kerala etc.

The genesis of cooperatives has been in the concept of mutual help among those who did not have the resources to go alone and succeed. Cooperative institutions, with the purpose of self help, did not have 'profit' as their purpose. Surpluses created out of any commercial activities carried out by such institutions are deemed to be 'undivided surplus' or 'retained earnings' and they do not constitute profits. This fact has been recognized across the Globe and many countries have a special treatment in respect of taxation of surpluses of cooperatives. According to World Council of Credit Unions (WOCCU), 67% of countries in Asia and 62% of countries in Africa exempt earnings of credit cooperatives. Figures for Latin American Countries is 81%, for Europe it is 38% and in the Caribbean it is 94%.

Even in India, such exemption was available to all cooperative banks till 2006.

Unfortunately however, the introduction of Sec 80P(4) in the 2006-07 Budget has been motivated by unfair bias against cooperative banking and credit system.

Instead of appreciating the contributions of cooperative credit system, the Govt. chose to justify withdrawal of benefits of Sec 80P(2) for all the State. CBs, DCCBs UCBs and St. RDBs on the basis of profits of a small number of scheduled and large multistate urban cooperative banks and state cooperative banks, Infact out of 1562 urban cooperative banks, around 900 UCBs are single branch banks.

The reasons put forth for withdrawal of benefits are very flimsy in comparison to the time tested arguments in favour of continuing the benefits to the sector. Though these arguments were effectively countered by the sector with very cogent reasoning, these were brushed aside and section 80P(4) was introduced.

There were very strong valid reasons when Sec80P(2) was introduced originally. The reasons are still valid today.
As it stands, the collection of income tax from all the cooperative banks put together would be less than half a percent of the total of corporate and income tax collection. Even this small amount, if allowed to be retained with the cooperative banks, can help them in mobilizing deposits and provide loans of Rs10000 each to around 25lakh small borrowers and marginal farmers. It was a misplaced judgment to take away the retained surplus from cooperative banks for whatever reasons

As a member of Parliament from Gujarat, I would request you to consider the following suggestions while preparing this year's budget.

i.Kindly revisit the Sec 80P(4) introduced in 2006, and restore the benefits of Sec 80(P)(2) to the cooperative banks for the benefit of crores of people of very small means, including marginal and subsistence farmers ,both in agriculture and non agriculture sectors across the Country.

ii.In all, only 54 urban cooperative banks 17 state cooperative banks are scheduled banks.Rest of 1446 urban cooperative banks, 16 state cooperative banks and 1370 DCCBs are non scheduled banks.

Even if the government considers exempting only non-scheduled cooperative banks from the purview of Sec80(P)(4) , it will be of great relief to the sector . It will give big boost to financing of informal sector by these large number of cooperative banks, which are spread across the Country. The loss to the exchequer, which in itself is not be significant, will be more than compensated by the immense fillip it would give for financing informal sector by the cooperative banks.

iii.The Co-operative banks may be treated at par with corporate MSME companies for Income Tax purpose. It will be in fitness of things that the small people owned small banks pay income tax at rate lower than the corporate . A maximum rate of 25% would be appropriate recognition of the role of the sector in the society.

With regards,

Yours sincerely

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Member of Parliament

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