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Dated : February 07, 2023

Hon'ble Finance Minister Smt. Nirmala Sitharamanji,

Sub: Union Budget 2023 and Cooperatives

The cooperative sector in the Country is happy and thankful to you that for the first time cooperation as a sector has received such prominent mention and treatment in the union budget.

It is a fact that cooperation is mainly referred to in relation to agriculture and to rural economy since cooperation does play a big part there.

It is also natural that you have in your budget speech spoke about the proposals to provide substantial relief/support to cooperative sugar sector to the tune of Rs10,000 cr and also to the PACS and PCARDBs. We welcome the reliefs whole heartedly.

As you are kindly aware, cooperation also exists in a significant way in urban economy too. In fact, credit cooperatives are the oldest form of cooperative societies and the first cooperative law in the Country was the Cooperative credit societies Act 1904. There are a large number of credit societies numbering over 60000 that serve the people of limited means in urban areas and support the informal sector in a significant way. These credit societies are in a way, the cooperative counterparts of NBFCs in the corporate sector. Both are part of the financial sector landscape of the country and both of them are dependent on the banking sector for providing the payment system support to them so that they can extend banking facilities in a limited way to their customers.

If the cooperative credit societies are provided with some reliefs in income tax Act which would have no significant impact on revenue, it will help them to attain their true

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potential in a big way and they would be very important players like credit unions are in the United State sand some other countries. It is in line with your inspiring budget speech that also makes important reference to take steps to unleash the potential of economy.

Sec 269SS and 269T and 269ST make no distinction between an individual and the credit society. The sections do not see the credit societies as an intermediary between banks and the members of credit societies. Only by doing so will the credit societies realize their true potential.

Following are the excerpts of submission of pre-budget submission made by NAFCUB that pertain to credit societies and 269SS 269T and 269ST of Income Tax Act and also the GST Act.

“2. Cooperative Credit Societies

a. Applicability of Section 269SS & Section 269T to Cooperative Credit Societies

Co-operative credit societies are expected to provide facilities to their members in the same way as in case of banks and so they accept deposits from members in cash and also repay deposit in cash. Society is also required to give loans in cash to their members to fulfill immediate needs. But as per section 269SS, no person, subject to certain exceptions can accept loans or deposit of money otherwise than by account payee cheque or draft and in similar way as per section 269T of Income Tax Act. Deposit cannot be repaid otherwise than by cheques or draft. The applicability of section 269SS & 269T is not only limited to single cash transaction of Rs. 20,000/- but it covers even aggregate of cash transactions which exceeds Rs. 20,000/-. The banks are exempted from Section 269SS & 269T and so banks are accepting and repaying deposit in cash. But co-op. credit societies are not fall in the list of exceptions of Sec. 269SS and 269T. Co-operative credit societies are subject to control of co-operative registrar and also subject to audit by auditor appointed by co-operative department of state government. KYC documents of all the members have to be obtained by the society and if the society found making mischief of accepting deposit

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without KYC, tax can be levied on such cash deposit u/s 68. The intention of Section 269SS and 269T is only for the curbing practice of reflecting huge cash deposit found during search actions. So, applying sections 269SS and 269T to co-operative credit societies is not in consistent with intention of the law.

It is therefore suggested that co-operative societies be treated at par with co-operative banks for this purpose and co-operative credit societies be added in exceptions provided in item (b) of first proviso to Section 269SS and exceptions provided in item (ii) of second proviso to Section 269T.

c. Applicability of provisions of GST Act to Co-op. Credit Societies.

In most of the cases of co-operative societies, liability of GST arises of very nominal amount on levy of service charges from members which is of meager sums. Since the co-operative societies have interest as their dominant revenue as compared to these small charges, these societies are required to charges GST only on these small charges. It is to be noted that the Interest income is classified under exempt supply by virtue of the entry no. 27 of Notification no. 12/2017- Central Tax (Rate). This notification has prescribed the list of service exempted from GST. As the interest is covered in the notification related exemption on services, no GST is required to be charged on this interest. However since the interest is defined as a “supply” being covered under the scope of supply, the same is counted in annual turnover of the society. Now, since Cooperative Credit societies have mainly interest income and very nominal amounts of service charges etc. from their members, they are still required to obtain GST registration as their annual turnover inclusive of such interest (which is otherwise exempt as stated above) generally exceeds the prescribed quantum of Rs. 40.00 Lacs. If the societies are having only interest income below Rs. 40 lakh, they are not liable to take registration by taking benefit of Sec. 23(1)(a) of CGST Act as it is engaged exclusively in the supply of service wholly exempt from tax. But due to having nominal amounts of

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service charges from members (which are taxable) mainly in nature of reimbursement or compensatory, societies are required to obtain registration under GST as per Sec. 22 and comply with all the requirements of filing various returns under GST Act. In case of default, heavy late fees and penalties are levied. So, it is undue hardship to the society without any revenue to government. So, to remove this difficulty, Government may issue notification under sec. 23(2) or alternately, Government may consider issuing notification u/s. 9(3) and including the services of Co-op. credit society in the category of taxable supply of services (on which tax is to be paid) on reverse charge basis by the recipient of the service. This will relieve the societies from cumbersome GST compliances and the onus of paying GST will shift to recipient of services whose amounts are very nominal.”

In conclusion we sincerely request that just as PACs and PCARDBs have been given some relief, the credit societies are also provided appropriate relief u/sec. 269SS 269T, 269ST and in GST for them to grow their business.

With kind regards,

Your's Sincerely



(Jyotindra Mehta)

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