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Centre allows relief to sugar cooperatives over excess cane payments made to farmers

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THE FINANCE Ministry has notified the rules enabling cooperative sugar mills to claim past cane price payments made to farmers, in excess of the government's statutory minimum price (SMP), as "business expenditure".

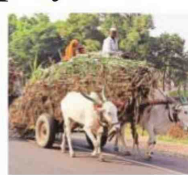
The move is expected to provide mills a relief of almost Rs 10,000 crore, against pending tax demands and litigation in respect of payments made before 2015-16 financial year.

It comes at a politically significant moment, when a faction of the Nationalist Congress Party (NCP) led by Ajit Pawar has joined the BJP-led National

Democratic Alliance. The NCP has a strong base among cooperatives in Maharashtra, which the ruling NDA would also want to exploit for the 2024 General Election.

Cooperative factories, particularly in Maharashtra, usually pay farmers a final cane price that is more than the Centre's SMP — now called fair and remunerative price or FRP.

This extra price paid has resulted in tax litigation, with mills claiming the excess payment as business expenditure. The Income Tax Department, on the other hand, has disallowed this and treats the excess price paid for sugarcane over and above the SMP as appropriation/distribution of profits, and thus not allowable as deduction.



Cooperatives in Maharashtra usually pay farmers a final sugarcane price that is more than the Centre's SMP. File

The 2015-16 Union Budget had introduced an amendment to the Finance Act that provided for excess cane price payments made by cooperative sugar mills to be allowed as deduction for

computing their business income. However, such deduction was made applicable only prospectively from 2016-17 assessment year. It did not end demands and litigation regarding previous assessment years.

Finance Minister Nirmala Sitharaman's 2023-24 Budget sought to conclude the matter and to extend the benefit of deduction to all financial years prior to 2015-16. This was done by amending Section 155 of Income Tax Act through insertion of a new subsection (19).

"Since the Budget announcement, there was no action in the form of any circular, guidelines or SOP from the Central Board of Direct Taxes (CBDT). It created confusion at the field level," a source told *The Indian Express*.

According to them, it required the intervention of Union Cooperation Minister Amit Shah for CBDT to finally issue the SOP for cooperative mills to make application for re-computation of total income. Such applications can now be filed for 2015-16 or any other earlier assessment years.

"It is a huge relief, given the outstanding tax amount of nearly Rs 10,000 crore that was a sword hanging over the head of cooperative sugar factories. We are thankful to the Union Cooperation and Finance ministers and the officials concerned of both ministries for making this possible," Prakash Naiknavare, managing director of National Federation of Cooperative Sugar Factories, said.