Revenue dept rejects 'no GST on co-lending' demand

SBI-led panel suggested removal of 18% GST on co-lending related activities

HARSH KUMAR
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The Department of Revenue has rejected a recommendation by a panel led by State Bank of India (SBI) to remove 18 per cent goods and services tax (GST) on activities related to co-lending among commercial banks and non-banking financial companies (NBFCs), according to a senior government official.

"We will explore other approaches to address this matter," the official said.

In May last year, the Department of Financial Services had asked SBI to set up a co-lending committee to sort out issues related to its business model.

"While examining the matter, it was seen there were several types of agreements between banks and NBFCs. The fitment committee was of the view that the structures/practices in these agreements needed to be examined in more detail before a decision could be taken in the matter," said another government official.

In a letter to the chairman of the Central Board of Indirect Taxes and Customs in November last year, the Finance Industry Development Council (FIDC), which represents NBFCs, had argued against GST.

"No specific service is being provided by one co-lender to the other within this arrangement. Instead, they collectively provide credit to the borrower, and the interest rate differential reflects their respective roles and risks in the joint operation. Therefore, the excess interest charged by the NBFC in a co-lending arrangement should not be considered a servicing fee subject to GST," the letter stated.

ILLUSTRATION: BINAY SINHA

NO CONSENSUS

- DFS in May 2024 asked SBI to set up a committee to address issues in co-lending business model
- Banks and NBFCs sign several types of agreements for co-lending
- **Committee's view:** These agreements needed detailed examination
- **NBFCs say:** Interest rate differential shows banks' and NBFCs' respective roles and risks
- Excess interest charged by NBFCs should not be considered servicing fee subject to GST, they argue

Under the co-lending model, NBFCs are required to retain a minimum of 20 per cent of individual loans on their books, while the rest is held by banks.

The Reserve Bank of India has permitted banks to co-lend or co-originate loans with NBFCs, including housing finance companies, to enhance credit flow to unserved and underserved sections of the economy.

The committee was led by SBI Deputy Managing Director Surender Rana, with representation from Punjab National Bank, Union Bank of India, and Central Bank of India. Additionally, three NBFCs have representation on the panel. They include the FIDC.

Crisil Ratings had predicted the co-lending portfolios of NBFCs would likely reach ₹1 trillion by June 2024, with an annual growth rate of 35-40 per cent in the medium term.

"It has been argued that the interest rate difference reflects NBFCs' higher funding costs and that there is no specific additional service being provided by NBFCs to the banks. This is a joint operation focused on providing credit and that the 'excess interest spread' is essentially interest income, not a service charge," said a senior government official.

According to a report by PwC India, co-lenders lent ₹47,000-52,000 crore in FY23 and that is projected to grow five-fold over the next five years, reaching ₹2-2.5 trillion. Around 34 per cent of this portfolio is on account of personal loans, reflecting strong consumer demand for flexible, unsecured financing.

Home loans account for 20 per cent, indicating investment in real estate, while gold loans and credit to unsecured MSMEs make up 13 per cent each. Vehicle financing comprises 12 per cent, with most loans secured.