

FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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www.fidcindia.org.in



March 13, 2025

ADVISORY

To
All Members

Dear Sir/Madam,

ADVISORY ON APPLICABILITY OF GST ON CO-LENDING WITH NBFCs

We have been informed by some of our members that recently DGGI started investigating few lenders as to whether a service component exists in their co-lending arrangements with NBFCs leading to possible evasion of GST. In this regard, we had a few rounds of discussion with DFS, DoRevenue and IBA, when it was decided to form a joint working group of IBA Member Banks with FIDC to deliberate on the issue.

The Working Group was tasked with identifying the possible service components in the co-lending arrangement, valuation of such identified service components and ways to enshrine such service components in the agreements between the lender and their NBFC partners in the co-lending arrangements to avoid any interpretational issues at a later date.

The deliberations in the Working Group revealed that at present most of the lender banks enter into two agreements with their NBFC partners, viz. 1. Master Agreement on Co-lending and 2. Service level agreement enshrining the service components involved in the arrangement and the compensation payable thereof. The compensation payable under the service level agreement is already being offered for GST payment. Few banks confirmed that where a separate service level agreement is not being executed, such details are

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enshrined in the Master Agreement itself and the compensation involved is offered for GST.

As regards the valuation of such services rendered by the NBFCs to their partner lending institution, it was informed that the compensation depends on a number of factors including the deal size, partner NBFC, sector, nature of services and the business relationship between the co-lending partners. **As such, members were of the opinion that fixing a uniform rate of compensation will be impossible and should be left to the discretion of the co-lending partners.**

In view of the above members may:

- Explore the possibility of identifying the service elements in their co-lending arrangements, enshrine the same along with the compensation payable for such identified services in a service level agreement or in the Master Agreement itself and offer the compensation payable to GST, to avoid any interpretational issues in future.
- The valuation of such services could be arrived at by mutual discussions between the co-lending partners.

Members may please be guided accordingly.

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL