

# Is GST registration mandatory for NBFC?



<b>Address</b>	{value_address}
<b>Contact Person</b>	{value_contact_person}
<b>Mobile Number</b>	{value_mobile_number}
<b>Email</b>	{value_email}

Yes, GST registration (Goods and Services Tax registration) is generally mandatory for Non-Banking Financial Companies (NBFCs) under certain conditions, but there are several nuances and factors that determine whether or not an NBFC needs to register for GST. In this article, I'll outline the significance of GST registration for NBFCs, the applicable provisions, and the threshold limits that apply.

## What is an NBFC?

A Non-Banking Financial Company (NBFC) is a financial institution engaged in providing financial services but is distinct from a traditional bank. While they provide banking services like loans and credit facilities, they do not hold a banking license and cannot accept demand deposits (, they cannot accept public deposits repayable on demand). NBFCs play a critical role in providing credit to various sectors of the economy, particularly small and medium enterprises (SMEs) and individuals who may not have access to traditional banking services.

## What is GST?

The Goods and Services Tax (GST) is a complete indirect tax levied on the supply of goods and services in India. It subsumed most of the previous indirect taxes like service tax, VAT, excise duty, etc. Under GST, businesses must register if their aggregate turnover crosses a specific threshold, and they are liable to collect and pay GST on their sales or supplies.

## Applicability of GST for NBFCs

For NBFCs, the GST regime primarily affects their provision of financial services. Financial services provided by NBFCs, such as loan processing fees, management consultancy fees, and financial leasing, fall under the taxable service category. However, interest on loans is generally exempt from GST.

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Here are key considerations to determine if GST registration is mandatory for an NBFC:

## 1. Threshold for GST Registration

Under GST law, a business is required to register for GST if its aggregate turnover exceeds the following limits:

- **Rs. 20 lakhs** in aggregate turnover for service providers (including NBFCs) in most Indian states.
- **Rs. 10 lakhs** for service providers in special category states like Arunachal Pradesh, Assam, Himachal Pradesh, and others.

An NBFC that crosses these turnover limits is required to obtain GST registration and comply with the related provisions. The turnover for GST includes taxable supplies, exempt supplies, exports of goods or services, and interstate supplies.

## 2. Interstate Supply of Services

NBFCs that provide financial services across state borders need to register for GST irrespective of their turnover, as per Section 24 of the CGST Act. This is because interstate supplies, even without exceeding the threshold limit, make GST registration mandatory.

Many NBFCs operate in multiple states or provide services to clients in various locations, which automatically triggers the need for registration.

## 3. Taxability of Financial Services

Financial services provided by NBFCs typically include activities such as:

- Loan processing fees
- Late payment charges
- Foreclosure charges
- Documentation fees
- Management consultancy
- Financial leasing services

All of these services are subject to GST at the standard rate of 18%. However, the **interest on loans** remains exempt from GST. This distinction is vital for NBFCs as they need to segregate taxable services from exempted services.

## 4. Input Tax Credit (ITC) for NBFCs

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NBFCs are eligible to claim Input Tax Credit (ITC) on their purchases and other inputs. However, the ITC eligibility for NBFCs comes with some restrictions. NBFCs providing both taxable and exempt supplies (such as interest on loans) can claim ITC on a **proportionate basis**.

As per Rule 38 of the CGST Rules, NBFCs can opt to avail only 50% of the eligible input tax credit on inputs, input services, and capital goods. This option allows them to simplify the ITC computation process but limits the full claim to only 50%.

## 5. Reverse Charge Mechanism (RCM)

NBFCs also need to be mindful of the **Reverse Charge Mechanism (RCM)** under GST. Under RCM, the recipient of certain services is liable to pay GST instead of the supplier. NBFCs receiving services from unregistered dealers may be required to pay GST under the reverse charge.

For example, if an NBFC hires a security service from an unregistered vendor, the NBFC would have to pay GST under RCM. This adds to their compliance burden, making it even more critical for NBFCs to ensure proper GST registration and accounting.

### Is GST Registration Mandatory for All NBFCs?

No, not all NBFCs are required to register for GST. The requirement for GST registration depends on the following factors:

- **Turnover Threshold:** If an NBFC's aggregate turnover exceeds the threshold of Rs. 20 lakhs (or Rs. 10 lakhs in special category states), it must register for GST.
- **Interstate Services:** If an NBFC supplies services across states, it must register regardless of its turnover.
- **Nature of Services Provided:** If an NBFC is engaged in exempt services only (like purely providing interest-bearing loans with no other taxable services), it may not need GST registration. However, if it provides both taxable and exempt services, registration is required.

### Exemptions for NBFCs Under GST

As mentioned earlier, the most notable exemption for NBFCs under GST is **interest on loans**. Interest on loans is considered an exempt supply and does not attract GST. NBFCs, which often have interest as their primary source of revenue, can take advantage of this exemption.

However, any fees charged in connection with the loan (like processing fees or late payment charges) are subject to GST. Therefore, NBFCs need to carefully differentiate their income streams to ensure correct GST compliance.

### Compliance and Filing for NBFCs Under GST

Once registered under GST, NBFCs must fulfill various compliance requirements, including the filing of

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regular GST returns. The frequency and type of return filing depend on the turnover and nature of services provided:

- **Monthly Returns:** NBFCs with a turnover exceeding Rs. 5 crore must file monthly GSTR-1 and GSTR-3B returns. These returns include details of outward supplies and overall tax liability.
- **Quarterly Returns:** NBFCs with turnover up to Rs. 5 crore can opt for the **QRMP (Quarterly Return Monthly Payment)** scheme and file quarterly GSTR-1 and GSTR-3B returns, but they must still pay taxes monthly.
- **Annual Returns:** Every NBFC must file an annual return in the form GSTR-9 and, in some cases, a reconciliation statement in GSTR-9C (for those with a turnover exceeding Rs. 2 crores).

### **Penalties for Non-Compliance**

NBFCs failing to comply with GST registration requirements face potential penalties. Non-compliance can result in interest on late payments, penalties for delayed filing, and in some cases, seizure of assets or cancellation of GST registration. Therefore, ensuring timely registration and accurate GST filings is critical for an NBFC's smooth operations.

### **Conclusion**

In conclusion, GST registration is mandatory for NBFCs under certain circumstances, particularly when their aggregate turnover exceeds prescribed thresholds or they provide interstate services. NBFCs must also carefully manage their GST compliance, including differentiating between taxable and exempt supplies, understanding input tax credit provisions, and ensuring proper return filing. The decision to register for GST depends on the nature of the NBFC's business activities, turnover, and interstate operations, but it is essential to maintain compliance to avoid penalties and ensure efficient financial management.

For more details, please visit <http://scripts.goclix.com/is-gst-registration-mandatory-for-nbfc-36727>

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