

Banks to bear extra cost due to 18% GST on priority lending certificates

Banks have to give 40% of net lending to priority sector such as agriculture, micro enterprises, weaker sections, etc

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A recent circular by the indirect tax department to impose 18 per cent [goods and services tax \(GST\)](#) for certificates issued on excess priority sector lending by banks would increase lenders' cost, as these are not eligible for full input tax credit.

The [Central Board of Excise and Customs \(CBEC\)](#) recently clarified that Priority Sector Lending Certificates (PSLCs) would not be treated as securities but as goods. Hence, would draw an 18 per cent tax.

PSLCs are a tool for promoting priority sector lending obligations. Banks have to give 40 per cent of net lending to priority sector such as agriculture, micro enterprises, weaker sections, etc.

If a bank gives an excessive amount of priority lending, it will earn these certificates. Banks falling short of the target would be required to buy these.

lower prices

Suppose a bank lends Rs 105 to agriculture, whereas its requirement was only Rs 100.

It will then earn a certificate of Rs 5. This certificate may be lent to any other bank needing it.

CBEC said there was no exemption for trading in PSLCs under GST. "Thus, PSLCs are taxable as goods at the standard rate of 18 per cent under the residuary item."

However, there is one relief. GST payable on the certificates would be available as input tax credit to the lenders buying these. Abhishek Rastogi, partner, Khaitan & Co, said banks are eligible for only 50 per cent of input tax credit. Hence, the remaining 50 per cent would become a cost.

Therefore, there would be some additional burden of tax on banks in the days ahead, he added. Rastogi also suggested GST be collected on the reverse charge mechanism, as it is difficult to find the buyer of these certificates, since these are traded through e-Kuber, a Core Banking Solution.

In reverse charge, it is the seller who pays GST instead of the buyer. That mean tax should be paid by the bank which lends Rs 105, instead of the buyer of that certificate.