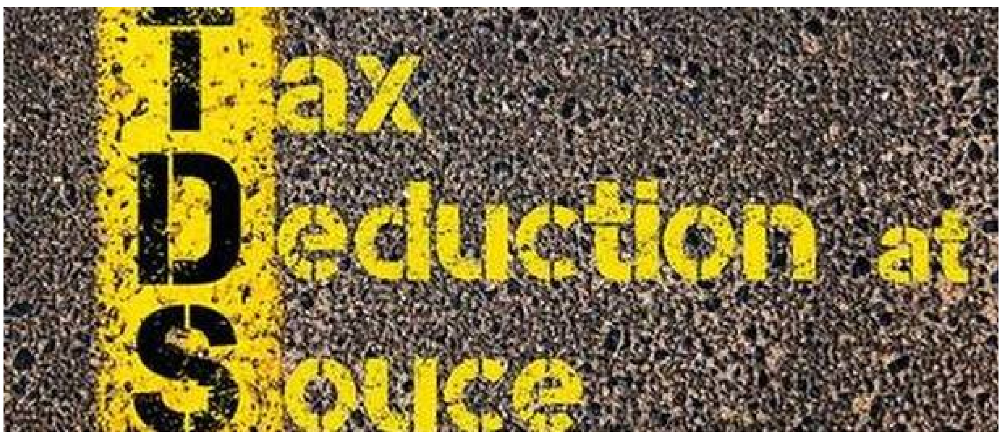
FIDC urges govt to exempt NBFCs with over ₹500 crore asset base from TDS

KR Srivats New Delhi | January 30, 2019



Ahead of the Union Budget, the Finance Industry Development Council (FIDC) has urged the government to exempt all non-banking finance companies (NBFCs) with asset base of over ₹500 crore from the provisions of Tax Deduction at Source (TDS).

Exemption from TDS can be one of the important ways to ease liquidity, Raman Aggarwal, Chairman, FIDC, said in a letter to DEA Secretary Subhash Garg.

This letter is significant as it comes just few days before the Budget announcement on February 1.

NBFCs have been facing an acute liquidity crunch for the last two months. This has severely impacted their growth.

This has had a major impact on delivery of credit to the bottom of the pyramid, especially MSMEs.

In India, as of October-end last year, there were about 300 NBFCs that had asset base of over ₹500 crore and registered with the Reserve Bank of India.

These 300 NBFCs account for about 90 per cent of the NBFC sector's assets in the country.

Co-origination

The Council has also made a case for TDS exemption on interest paid in co-origination transactions, as borrowers are unable to split the portion related to the NBFC and deduct tax on it.

It may be recalled that interest payouts on loans taken from banks are exempted from TDS.

In a co-origination, which was allowed by the RBI in September 2018, a single borrower may be co-funded by a bank and an NBFC in a pre-determined ratio.

Both bank and NBFC may price the loan independently. However, the borrower would have to be offered a single blended rate of interest. All the repayments made by the borrower (including the interest) by way of EMIs would have to be made to an escrow account from where the amounts are credited to the bank and the NBFC in their respective proportion.

“In such a scenario, the borrower will not be in a position to determine the exact interest component of the NBFC portion and hence, TDS deduction would be practically impossible,” Aggarwal said.

Securitisation

The FIDC has, in this letter, suggested that the securitisation guidelines be amended so as to do away with the prescribed Minimum Holding Period (MHP) and Minimum Retention Requirement (MRR).

With NBFCs having to follow Ind AS accounting system with effect from April 1, 2018, the requirement of MHP and MRR denies the benefit of a true sale and thus, results in additional capital requirement, the FIDC has said.

Published on January 30, 2019

0

COMMENTS

Next Story

LIC Housing Finance posts 25% rise in Q3 profit

In Money & Banking