FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organization for Registered NBFCs)

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

Tel: 022 21027324/9820035553 ● E-mail: maheshthakkar45@yahoo.in website: www.fidcindia.org

29th July 2017

To

Mr. Sushil Kumar Sahai ,

Member (IT),

Central Board of Direct Taxes,

North Block,

New Delhi - 110 001.

SUB: EXTENSION OF TAX BENEFIT TO NON- BANKING FINANCIAL COMPANIES ('NBFCS') SIMILAR TO THAT CURRENTLY AVAILABLE TO BANKS

Respected Sir,

Finance Industry Development Council (FIDC) is a Self-Regulatory Organization (SRO) cum Representative Body of the NBFCs, registered with the Reserve Bank of India and engaged in Asset Financing. FIDC was formed 12 years ago, at the behest of the then RBI Governor and is the recognized face of NBFCs, specially, those engaged in asset financing. We have been engaged in regular interactions both with Reserve Bank of India and Ministry of Finance, which include pre-budget meetings with the Hon'ble Finance Minister and also important policy related meetings with the Governor and Deputy Governor of RBI. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members.

At the outset, we would like to express our sincere appreciation of the various financial sector reforms being undertaken by the Ministry of Finance which shall go a long way in positioning India as the fastest growing economy and the most preferred destination for foreign investment.

To fuel this growth engine, ensuring financial access to the remote areas of the country is a critical priority. While thrust to increase banking penetration is aggressively being sought through programs like the Pradhan Mantri Jan Dhan Yojana, etc, the extent of banking coverage continues to be low. In this scenario, NBFCs have played an important role in bridging the gap and meeting the funding requirement in underserved and unbanked areas.

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Like Banks even NBFCs are regulated by Reserve Bank of India ('RBI') and are mandated to follow RBI guidelines including the prudential norms. In-fact over the years, similar to Banks, based on the recommendations of Mor Committee and Thorat Committee, RBI has been tightening the regulatory framework for NBFCs and has brought convergence in regulation for

NBFCs with Banks i.e. registration requirements, higher capital norms, tightened asset classification and provisioning norms, credit concentration norms, enhanced reporting and supervision, corporate governance framework, etc.

Thus, over time, the NBFC sector has evolved from being fragmented and informally governed to being well regulated with majority of them following the best practices in terms of technology, governance and risk management. Thus, the need for a uniform practice and level playing field in terms of tax treatment for NBFCs is indispensable. In fact, even the Thorat Committee Report recommended there should be parity in tax treatment between Banks and NBFCs.

Amongst the various others provisions, the following key provision under the Income-tax Act, 1961 ('the Act') provide tax relief to banks and some other financial institutions but NBFCs are currently not covered by these provision:

Section 194A of the Act

Section 194A of the Act provides that any person (other than Individual and HUF) making payment of interest is required to deducted tax at source at the rate of 10 percent. However, payment of interest to Banking companies and other financial institutions is outside the purview of withholding tax provisions under section 194A. Accordingly, tax is required to be deducted at the rate of 10 percent from interest paid to NBFCs as no specific exemption is given for payment interest to NBFCs. This creates severe cash flow constraints since NBFCs operate on a thin spread/ margin on interest which at times is even lesser than the tax deducted at source ('TDS') on the gross interest. In this regard, our detailed representation on excluding NBFCs from the purview of section 194A of the Act is enclosed as ***Annexure.***

We request that it is therefore only fair that the tax benefits available to banks should also be made available to NBFCs. Extension of tax benefits will provide much needed relief to the NBFC sector which is already severely constrained due to tight profit margins and high cost funding.

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In light of above discussion, **we humbly request that the aforesaid suggestion/recommendation should be considered and suitable amendments should be made in the relevant sections as discussed in the annexures enclosed.**

Further, we also request you to kindly give us an opportunity to present our case so we can take you through our recommendation in person.

Should you need any further clarification, we would be glad to provide the same.

Thanking you,

Yours truly,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
Director General