M/s Al-Khair Co-operative Credit Society Limited

Authority for Advance Ruling — Bihar

AR(B)- 01/2017-18 Dated **16.08.2018**

Q Questions Before the Authority

- Whether consideration represented by way of Borrowing Cost received from members to whom loan was sanctioned, amounts to Taxable supply.

F Facts

The applicant is a multi-state co-operative credit society providing micro-loans and credit facilities to its members. Under its Bye Laws, the society does not charge interest on loans, but instead collects 'borrowing costs' or 'service charges' to cover operational expenses, documentation, and risk management. The applicant filed for an advance ruling to determine whether such borrowing costs received from members are exempt or constitute a taxable supply under GST.

H Ruling

Borrowing Cost / Service Charge received from members against sanctioned loans	**Taxable supply (GST applicable)**	Excluded from exemption as service charges do not qualify as interest under Notification No. 12/2017-Central Tax (Rate)

The Authority held that services of providing loans where consideration is received in the form of service charges or borrowing costs are **not covered by the exemption** under Sl. No. 27 of Notification No. 12/2017-Central Tax (Rate). Consequently, GST is **payable on such service charges** as per applicable rules.

R Reasoning

Sl. No. 27 of Notification No. 12/2017-Central Tax (Rate) grants exemption to services of extending loans or advances only when the consideration is represented by way of interest or discount. Clause 2(zk) of the notification specifically defines 'interest' and explicitly excludes 'any service fee or other charge' from its scope. Because the applicant collects service charges or operational costs rather than interest, the consideration fails to meet the statutory definition of interest and is fully taxable under GST.

P Provisions Relied On

Notification No. 12/2017-Central Tax (Rate), Sl. No. 27	Notification No. 12/2017-Central Tax (Rate), Para 2(zk)
Section 97 of the Bihar Goods and Services Tax Act, 2017	
Section 98 of the Central Goods and Services Tax Act, 2017	

Prepared as a reading aid. Where this summary and the original order differ, the order governs.

! For the Practitioner

This ruling establishes that ancillary fees, operational expenses, or administrative charges levied on loans under the label of 'borrowing costs' or 'service charges' **cannot claim GST exemption** under Sl. No. 27 of Notification No. 12/2017-Central Tax (Rate). Only pure interest or discount qualifies for exemption.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> ar_b_01_17-18_dt_16.08.18_0.pdf

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Pune (HQ)
RTC Silver, B4-708, Sai Satyam Park, Wagholi, Pune, Maharashtra 412207

Mumbai
104, Rajshila Building, 597 J.S.S. Road, Marine Lines, Mumbai 400002

Delhi
3rd Floor, B-6/154-155, Sector 5, Rohini, Delhi 110085

Gurugram
Pioneer Urban Square, B109, Golf Course Ext Road, Sector 62, Gurugram…

Ahmedabad
Phoenix Tower, 1107, near Commerce Six Road, Drive In Road, Navrangp…

Talk to us: +91 94594 56700 | sales@patronaccounting.com | patronaccounting.com