Bajaj Finance Limited

Authority for Advance Ruling — Maharashtra

NO.GST-ARA- 21/2018-19/B- 84 Mumbai, dt. 06.08.2018 Dated **06.08.2018**

Q Questions Before the Authority

- Whether the Bounce Charges collected by the Applicant should be treated as a supply under the GST regime?

F Facts

The Applicant is a non-banking financial company (NBFC) offering auto loans, personal loans, and consumer durable loans. Loan agreements mandate repayment through Equated Monthly Installments (EMIs) via post-dated cheques, ECS, or NACH mandates. In cases where payment mandates dishonour, the Applicant levies fixed penal charges known as 'Bounce Charges' (e.g., Rs. 350/- per default) in accordance with the terms of the loan agreement.

H Ruling

Bounce Charges collected by Applicant treated as a supply under GST	**Answered in the affirmative**	Classified as a supply of service under Entry 5(e) of Schedule II to the CGST Act, 2017.

The Authority held that the bounce charges collected by the Applicant for cheque or electronic mandate dishonour constitute consideration for tolerating an act or situation of default. Consequently, the transaction qualifies as a **supply of service** under clause 5(e) of Schedule II to the CGST Act, 2017 and attracts GST.

R Reasoning

The Authority observed that under Section 7 read with Schedule II of the CGST Act, 2017, agreeing to tolerate an act or situation constitutes a supply of service. The loan agreement explicitly foresees payment mandate defaults and lays down contractual bounce charges to compensate the lender for tolerating such defaults. The receipt of bounce charges is direct monetary consideration for tolerating the customer's failure to maintain sufficient funds for payment. The Authority further concluded that bounce charges do not qualify for exemption as interest or discount on loans under relevant notifications.

P Provisions Relied On

Section 7 of the CGST Act, 2017	Section 9 of the CGST Act, 2017
Clause 5(e) of Schedule II to the CGST Act, 2017	Section 15 of the CGST Act, 2017
Notification No. 12/2017-Central Tax (Rate) dated 28.06.2017	

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

Maharashtra State Notification No. 12/2017-State Tax (Rate) dated 29.06.2017

! For the Practitioner

This ruling establishes that liquidated damages or penal bounce charges collected by financial institutions for repayment mandate defaults are treated as taxable consideration for tolerating an act under **Schedule II entry 5(e)** . Practitioners should advise NBFC and banking clients that bounce charges cannot automatically be subsumed under GST-exempt interest income. Note that CBIC subsequently issued Circular No. 178/10/2022-GST clarifying the taxability of liquidated damages and penal charges, which should be read alongside this advance ruling.

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 -> maha-gst-ara-21 dt.06.08.18 bfl.pdf

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