M/s. Daimler Financial Services India Private Limited

Authority for Advance Ruling — Tamil Nadu

ORDER No. 16 /AAR/2019 Dated **15.04.2019**

Q Questions Before the Authority

- Whether the interest subvention income received by Daimler Financial Services India Private Limited (DFSI) from Mercedes-Benz India Private Limited (MB India) to reduce the effective interest rate to the final customer is chargeable to GST?

F Facts

DFSI is a non-banking financial institution that lends to buyers of Mercedes-Benz cars under the 'Mercedes-Benz Financial' scheme, with MB India nominating it as preferred financier under an MOU dated 25.05.2016. MB India pays DFSI an upfront interest subvention equal to the gap between the market rate and the concessional rate charged to the customer. DFSI books the amount as subsidy income and recognises it over the loan tenure, while the customer pays only the net interest rate under the loan agreement.

H Ruling

Whether interest subvention income received by DFSI from MB India, to reduce the effective interest rate to the final customer, is chargeable to GST	**Chargeable to GST under SAC 999792 at 9% CGST and 9% SGST**	The authority rejected the applicant's view that the subvention is interest consideration exempt under the notification. It held that the buyer has no obligation to pay the subvention, so it is not consideration for an exempt credit-granting supply. The subvention is instead consideration for DFSI's agreement under the MOU to provide loans at lower rates and related services to MB India's buyers.

The interest subvention income received by DFSI from MB India is **chargeable to GST** as a supply under SAC 999792 (Other miscellaneous services, agreeing to do an act). The applicable rate is **9% CGST and 9% SGST** under Sl. No. 35 of Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017, as amended, and G.O. (Ms) No. 72 dated 29.06.2017, as amended.

R Reasoning

The authority read the 'Mercedes-Benz Financial' agreement and held that the buyer pays only the net rate stated in Annexure I, so the subvention is not consideration paid by the buyer under Section 2(31) and cannot be part of the Section 15(1) transaction value of an exempt loan. It treated the credit-granting service to the buyer as a supply by DFSI, but held that the subvention arises from a separate supply by DFSI to MB India under Section 7(1)(a), since DFSI undertakes under the MOU to offer lower rates and customer services for MB India's benefit. It classified that supply under SAC 999792 as agreeing to do an act. It then applied Sl. No. 35 of Notification 11/2017-CTR to fix the rate at 9% CGST and 9% SGST.

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

P Provisions Relied On

Section 2(31) of the CGST Act, 2017 (definition of consideration)

Section 7(1)(a) of the CGST Act, 2017 (scope of supply)

Section 15(1) of the CGST Act, 2017 (value of supply: transaction value)

Scheme of Classification of Services: SAC 997113 (credit-granting services, consumer loans)

Scheme of Classification of Services: SAC 999792 (agreeing to do an act)

Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017, Sl. No. 35, as amended

G.O. (Ms) No. 72 dated 29.06.2017 (Notification No. II(2)/CTR/532(d-14)/2017), as amended

Notification No. 12/2017-Central Tax (Rate) dated 28.06.2017 (interest exemption, cited by the applicant and not accepted)

! For the Practitioner

This ruling is useful for captive financiers and manufacturers running subvented retail finance schemes, because it treats the manufacturer-paid subvention as taxable at 18% under SAC 999792 rather than as exempt interest. It settles the question for DFSI and is binding only within Tamil Nadu. It does not decide the exemption position for the buyer-side loan in general, nor the treatment of subvention paid by a manufacturer under a different contract. Any appeal lies to the Tamil Nadu State Appellate Authority for Advance Ruling within 30 days under Section 100.

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 -> tn-16-aar-2019-daimler_fsipl.pdf

Prepared 02-11-2026.

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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