M/s. Gujarat State Financial Services Ltd (GSFS), GSTIN 24AAACG5581B1Z0

Authority for Advance Ruling — Gujarat

ADVANCE RULING NO. GUJ/GAAR/R/10/2019 (in Application No. Advan… Dated **27.06.2019**

Q Questions Before the Authority

- Whether the applicant, which lends financial assistance to various Government of Gujarat entities, and those entities become related persons under GST.
- Whether GST is chargeable on notional processing fees or other notional charges on loans given to Gujarat State owned entities, where the applicant charges no processing fee or other charge and takes only interest as full consideration.

F Facts

GSFS is a wholly owned subsidiary of the Government of Gujarat and is registered with RBI as a non-banking finance company. The State Government directs state-owned entities to park their surplus funds with GSFS, which lends those funds to other state-owned entities needing finance, for tenors of 90 days to 3-5 years. GSFS charges only interest on these loans and, as a matter of policy, levies no processing fee or other charge.

H Ruling

Whether GSFS and the Government of Gujarat entities are related persons	**Yes. The relationship is that of related persons as defined under Section 15 of the CGST Act and the GGST Act.**	The order does not state the sub-clause of Section 15(5) it relies on. The applicant had cited Section 15(5)(a)(iv).
Whether GST is chargeable on notional processing fees or other notional charges on loans to state-owned entities	**No. The services of extending deposits, loans or advances are covered by sub-entry (a) of entry 27 of Notification No. 12/2017-CT (Rate) and the corresponding State notification No. 12/2017-State Tax (Rate), and are exempt.**	The exemption applies only where the consideration is **interest or discount**. If GSFS actually charges a processing fee or any other charge, that amount is taxable and GST will be payable.

The authority held that GSFS and the Government of Gujarat entities are related persons under Section 15 of the CGST and GGST Acts. It further held that, because interest is the only consideration, the loans are covered by **sub-entry (a) of entry 27** of Notification No. 12/2017-Central Tax (Rate), and its State counterpart, and are exempt. No GST arises on notional processing fees or other notional charges, but GST will apply if GSFS actually charges any processing fee or other charge in addition to interest.

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

R Reasoning

The authority noted that the applicant receives only interest as consideration, so the exemption in sub-entry (a) of entry 27 applies on the facts stated. It held that the notification does not distinguish between related and unrelated parties and does not refer to notional consideration, so the question of GST on notional charges does not arise. It treated actual charges other than interest as taxable and left them outside the ruling's exemption. The related-person question was answered by reference to Section 15 of the CGST and GGST Acts.

P Provisions Relied On

- Section 97(2)(e) of the CGST Act / GGST Act, 2017 (clause under which the question was raised)
- Section 15 of the CGST Act, 2017 and GGST Act, 2017 (related persons; the applicant cited Section 15(5)(a)(iv))
- Notification No. 12/2017-Central Tax (Rate), entry 27, heading 9971, sub-entry (a)
- Corresponding State notification No. 12/2017-State Tax (Rate) under the GGST Act, 2017
- FAQs on financial services (cited by the applicant, not independently relied on by the authority)

! For the Practitioner

This ruling helps state-owned or related-party lenders that charge only interest on loans, as it confirms that the entry 27(a) exemption is not affected by related-party status and that no GST is due on notional charges. Practitioners should note the order's reliance on the 'interest only' premise: any processing fee or other charge collected on such loans would be taxable. The ruling does not decide valuation for related-party transactions in other contexts, or the treatment of credit card interest and other excluded services. It is also an authority ruling binding only on the applicant.

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 -> guj aar 10-2019 gsfs 27.06.2019.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