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 cooperative credit society engaged in accepting deposits from its members and extending short-term loans to them. Under its Bye-Laws, the society does not charge interest on loans, but instead collects a service charge termed as 'Borrowing Cost' to cover operational expenses and cost of funds. The applicant approached the Authority for Advance Ruling to determine whether receiving such borrowing costs from borrowing members constitutes a taxable supply under GST.

H Ruling

Taxability of Borrowing Cost / Service Charge received from members on loans	**Taxable supply subject to GST**	Exemption under Notification No. 12/2017-Central Tax (Rate) Entry 27 is strictly limited to consideration represented by interest or discount.

The Authority for Advance Ruling held that extending loans against consideration received as **service charges or borrowing cost** is not exempt under GST. Exemption is restricted strictly to consideration received as interest or discount, making the applicant's service charges **taxable under GST** as per applicable law.

R Reasoning

Entry 27 of Notification No. 12/2017-Central Tax (Rate) exempts services of extending deposits, loans, or advances only to the extent consideration is represented by way of interest or discount. Furthermore, Paragraph 2(zk) of the same notification explicitly excludes service fees or other charges from the definition of 'interest'. Because the applicant's Bye-Laws prohibit charging interest and instead mandate the levy of service charges ('Borrowing Cost'), the amounts collected fail the definition of exempt interest and are subject to GST.

P Provisions Relied On

Notification No. 12/2017-Central Tax (Rate), Entry 27

Notification No. 12/2017-Central Tax (Rate), Paragraph 2(zk)

Section 98(4) of the CGST / Bihar GST Act, 2017

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

! For the Practitioner

This order clarifies that financial entities and cooperative societies cannot claim GST exemption on loan processing fees, administrative costs, or service charges billed under the label of 'borrowing cost'. Exemption is strictly confined to **pure interest or discount** ; any other fee structure or fee-based consideration automatically triggers GST liability.

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.pdf

Prepared 22-10-2026.

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