

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organization for Registered NBFCs)
101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)
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March 10, 2017

Shri Arun Jaitleyji
Hon'ble Minister of Finance
North Block,
New Delhi – 110 001

Respected Sir,

Sub: Proposed Section 269ST of Income Tax Act 1961

FIDC is a Self-Regulatory Organization of Non-banking Finance Companies (NBFCs) offering asset based finance. Our members actively work with under-banked and unbanked segments and offer them livelihood finance by providing commercial vehicle loans, equipment loans, business loans to MSMEs and small contractors/road transport operators. Over the years NBFCs have played a significant role in furthering the Government's objective of financial inclusion.

As the business model of NBFCs involves dealing with the aforesaid customer segments, the level of cash transactions tends to be significant. We have built systems and processes to not only handle cash repayments of loan installments, but also of identifying and reporting cash transactions which appear suspicious or above the threshold specified by the Financial Intelligence Unit. Asset financing NBFCs have actively helped in control of unaccounted for transactions by being diligent on reporting such transactions. We wholeheartedly welcome the Government's efforts at tackling the black money menace and commit our support for it.

Sir, The Finance Bill 2017 proposes to introduce a new Section 269ST to restrict cash transactions of Rs 300,000 or more. From our point of view, no disbursement of loans of Rs 3.0 lakhs or more can be made, nor can a borrower repay loan installments aggregating to the aforesaid amount. It is unclear from a plain reading of the proposed Section whether this amount would be for a financial year or would it have to be aggregated over the entire period of the loan. We presume it is the former, since a financial year is always the basis of reckoning under Income Tax Act.

To illustrate this point further, if the aggregate of Rs 300,000 were to be the sum total of all loan installments repayable over the life of the loan, lending institutions would have to keep track of EMIs paid over a substantially long period of time. For instance, a loan given for affordable housing for a 20 year period or a tractor loan given to a farmer for 7 years would have to be monitored over that period.

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Such monitoring would from the lenders' perspective be extremely difficult to implement and from the Department's perspective extremely difficult to track. Such a stringent step would have an unintended effect of impeding smooth credit flow to the deserving sectors of the economy such as agriculturists, MSMEs, small transport operators and affordable housing.

The relevant extract of the proposed Section reads as follows:

“In order to achieve the mission of the Government to move towards a less cash economy to reduce generation and circulation of black money, it is proposed to insert section 269ST in the Act to provide that no person shall receive an amount of three lakh rupees or more,—

.....(c) in respect of transactions relating to one event or occasion from a person

otherwise than by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.”

Request for Clarification

We hereby seek a Clarification whether this is applicable for one financial year or for the entire tenure of the event or occasion (which in our case shall be a loan transaction)

Suggestion

Banks and Co-operative banks shall be exempted from the proposed restriction. We hereby request you to kindly exempt NBFCs, registered with Reserve Bank of India, also from the proposed restriction, as the nature of loan transactions is the same for banks and NBFCs.

We look forward to receiving an early clarification and also acceptance of our suggestion in the matter. Assuring you of our full co-operation always and thanking you in anticipation

Yours faithfully

For FINANCE INDUSTRY DEVELOPMENT COUNCIL



RAMAN AGGARWAL
Chairman