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# NBFCs call for level-playing field

A STAFF REPORTER

**Calcutta:** Non-bank finance companies (NBFCs) and microfinance firms are hoping the Union budget will remove the disparity in income recognition and tax treatment between them and banks.

Under section 43D of the income tax act, any interest income received on bad or doubtful debt is chargeable to tax either in the previous year in which it is credited (to the profit and loss account) or the year in which it is actually received, whichever is earlier.

This benefit, an exception to the accrual system of accounting, is available to scheduled commercial banks, public financial institutions, state financial corporations and public housing finance companies. In last year's budget, the scope of the section was expanded to include co-operative banks.

As the books of the NBFCs grow, they also have to deal with stressed assets and thus expect inclusion in the section.

"Many exemptions available to banks and certain financial institutions have not been extended to the NBFCs. These need to be extended to create a level-playing field and to improve financial inclusion. In terms of compliance and reporting capabilities, NBFCs are no less than banks," said Kailash Baheti, CFO of Magma Fincorp.

"Section 43D of the income tax act should be extended to NBFCs registered with the RBI. Interest income in the case of NPAs should be taxed on receipt basis," he added.

In last year's budget, a new section 269ST was introduced, which restricted the amount of receipts to Rs 2 lakh in aggregate from a person in a day or in a single transaction other than through an account payee cheque or a bank draft or the use of electronic clearance through a bank account.

The new section, introduced to discourage cash transactions, is not applicable on government, banks, post offices or co-operative banks.

"Since the nature of the business of NBFCs is similar to that of banks and is governed under a similar regulatory environment, it is necessary that the NBFCs registered with the RBI should also be exempt from the applicability of section 269ST. Also NBFCs have similar reporting capabilities like banks and can provide the details of cash repayments made by the borrowers, including their KYC details," said Baheti.

After demonetisation, the cash-dependent business of microfinance firms were affected, resulting in irregular collections and a deterioration in portfolio.

These firms are now hoping for a deduction on provisions made on non-performing assets.

"Provisions made by MFIs on their NPAs are not permitted for deduction. However, the provisions made by banks on their NPAs are permitted for deduction. In the light of demonetisation and its big impact on MFI portfolio, this issue is more pertinent today than ever before," said Jugal Kataria, CFO at Satin Creditcare.

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**Section 43D:** Allows banks to treat income from NPA either in the year of income it is is due or in the year of receipt of income, whichever is earlier

**Section 269ST:** Amount of receipts in cash at Rs 2 lakh daily, other than cheques

- Banks part of Section 43D, not NBFCs
- Banks exempt from Section 269ST. NBFCs must comply

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