

**F. No. CBIC-190354/142/2026-TRU Section-CBIC**

**Government of India  
Ministry of Finance  
Department of Revenue  
(Tax Research Unit)**

Kartavya Bhawan-I, New Delhi  
Dated the 28<sup>th</sup> October, 2026

**To,**

**The Principal Chief Commissioners/ Chief Commissioners/ Principal Commissioners/  
Commissioners of Central Tax (All) / The Principal Director Generals/ Director Generals  
(All)**

Madam/Sir,

**Subject: Clarifications regarding applicability of GST on certain services – reg.**

Based on the recommendations of the GST Council in its 57<sup>th</sup> meeting held on 8<sup>th</sup> October 2026, and in exercise of the powers conferred under section 168(1) of the Central Goods and Services Tax Act, 2017 (hereinafter referred to as the CGST Act), the following clarifications are being issued to ensure uniformity in interpretation:

**2. Clarification regarding the distinction between research & development and consultancy services based on a self-certification mechanism.**

2.1. The GST Council, in its 54<sup>th</sup> meeting held on 09<sup>th</sup> September, 2024, recommended to exempt research and development services provided by Government Entities or research associations, universities, colleges or other institutions, notified under clauses (ii) or (iii) of sub-section (1) of section 35 of the Income Tax Act, 1961, against consideration received in the form of grants. The same has been exempted w.e.f. 10<sup>th</sup> October, 2024 vide Entry No. 44A of Notification 12/2017 - Central Tax (Rate). In the said meeting, the GST Council also recommended that the matter may be examined to clarify the definition of research & development to distinguish it from consultancy services.

2.2. The matter has been examined. The terms '*research*', '*research and development (R&D)*', '*consulting*' or '*consultancy*' are not defined under the CGST Act, 2017, rules or notifications issued thereunder. The said terms are also not defined in the explanatory notes to the scheme of

classification of services under GST. It is observed that owing to the scientific and technical nature of such activities, there may be an overlap between research and development (R&D) services and consultancy services and accordingly, there may be a possibility that consultancy services are wrongly classified as R&D services or vice versa.

2.3. Accordingly, where an exemption is claimed under Entry 44A of Notification No. 12/2017-Central Tax (Rate) in respect of research and development services undertaken against consideration received in the form of grants, a certificate issued by the head of the concerned government entity, research association, university, college or other institution notified under clauses (ii) or (iii) of sub-section (1) of section 35 of the Income-tax Act, 1961, certifying that the activity undertaken is in the nature of research & development and not in the nature of consultancy, may suffice for the purpose of claiming the said exemption.

### **3. Regularizing payment of GST on import of services by an Indian establishment of a foreign shipping company from a related person or any of its establishment outside India, when made without consideration:**

3.1 The GST Council in its 57<sup>th</sup> meeting has recommended to exempt import of services by an Indian establishment of a foreign shipping company from a related person or any of its establishment outside India, when made without consideration. Accordingly, this has been given effect from 01.11.2026 vide Notification No. 07/2026-Integrated Tax (Rate) dated 27.10.2026.

3.2 The Council further recommended to regularize the payment of GST on import of services by an Indian establishment of a foreign shipping company from a related person or any of its establishment outside India, when made without consideration, for the past period on '*as is where is*' basis.

3.3 Therefore, on recommendations of the GST Council, the payment of GST on import of services by an Indian establishment of a foreign shipping company from a related person or any of its establishment outside India, when made without consideration, is hereby regularized for the period from 01.07.2017 to 31.10.2026 on '*as is where is*' basis.

### **4. Clarification regarding GST treatment of statutory and ancillary recoveries made in addition to lease rent in motor vehicle leasing transactions**

4.1 Representations have been received seeking clarification regarding the GST treatment of statutory and ancillary expenses recovered separately in addition to the lease rent by the lessor from the lessee in connection with leasing of motor vehicles. These expenses include registration charges (including road tax), insurance premium, FASTag charges and other incidental expenses relating to the leased vehicle.

4.2 In a motor vehicle leasing arrangement, the lessor purchases the vehicle in its own name and remains its legal owner during the lease period. The lessor undertakes registration, insurance and other statutory compliances relating to the vehicle and recovers such expenses from the lessee.

4.3 The matter has been examined. The above-mentioned expenses are incurred by the lessor for the vehicle owned by it and are incidental to the service of leasing the vehicle to the lessee, such expenses are closely connected to the leasing service.

4.4 It is hereby clarified that recovery of such statutory and ancillary expenses form part of the value of the composite supply of the leasing service and shall be taxed at the rate applicable to the leasing service of motor vehicle.

## **5. Whether Telecom Regulatory Authority of India (TRAI) is “Government” under GST law?**

5.1 Representation has been received from Telecom Regulatory Authority of India (TRAI) seeking clarification whether TRAI is covered within the meaning of “Government” under GST law on the grounds that TRAI is a statutory authority established under the Telecom Regulatory Authority of India Act, 1997 to perform certain statutory regulatory functions and is substantially funded through Government grants.

5.2 The matter has been examined. “Government” has been defined under section 2(53) of the CGST Act to mean the Central Government. It has also been clarified at Point No. 6 of CBIC’s Sectoral FAQs on Government Services that a statutory body, corporation or authority created by the Parliament or a State Legislature is a juridical entity distinct from the Government and cannot be regarded as Government. The FAQs further clarify that regulatory bodies and other autonomous entities do not fall within the definition of “Government”.

5.3 Thus, it is hereby clarified that TRAI, a statutory regulatory authority, is not “Government” within the meaning of section 2(53) of the CGST Act.

## **6. Clarification regarding GST treatment of Fund Transfer Pricing (FTP) mechanism in banks, i.e., whether GST is applicable on the notional interest recorded in the Books of Accounts by Head Office, when funds are notionally transferred from one branch to another, through the Head office.**

6.1 Representation has been received seeking clarification regarding applicability of GST on the notional interest recorded in the Books of Accounts by the banks under the Fund Transfer Pricing (FTP) mechanism, wherein funds are notionally transferred between different branches of

a bank through its Head Office. FTP is an internal funds allocation and performance measurement mechanism used by banks for evaluating the performance of different branches or business units.

6.2 It has been observed that in certain cases, demands have been raised on such notional amount/interest on the ground that FTP represents a financial service provided by the Head Office to its branches since the Head Office and its branches are distinct persons under section 25(4) of the CGST Act.

6.3 The matter has been examined. Under the FTP mechanism, the Head Office notionally pools funds from deposit-mobilising branches and allocates such funds to lending branches at an internally determined price linked to the relevant product or tenure. Such notional amount represents the cost of funds and is akin to interest. Further, the definition of “interest” in Notification No. 12/2017-Central Tax (Rate) covers interest payable in any manner in respect of moneys borrowed or debt incurred.

6.4 Therefore, on recommendations of the 57<sup>th</sup> meeting of GST Council, it is hereby clarified that the notional amount/interest recorded in the Books of Accounts against the activity of making a loan or an advance under the Fund Transfer Pricing mechanism is covered by the definition of “interest” for the purpose of exemption under Notification No. 12/2017-Central Tax (Rate) dated 28.06.2017.

## **7. Clarification regarding taxability of services provided by NBFCs to banks in co-lending arrangements.**

7.1 Representations have been received seeking clarification regarding the taxability of services provided by Non-Banking Financial Companies (NBFCs) to banks under co-lending arrangements.

7.2 The issue is examined and it is noticed that RBI has issued directions, viz., RBI (Commercial Banks - Transfer and Distribution of Credit Risk) Directions, 2025 (The Directions) which recognizes services provided by NBFCs to bank in co-lending arrangements. Under the co-lending model, banks and NBFCs jointly extend credit to borrowers in a pre-agreed proportion, with the objective of combining the lower cost of funds of banks with the wider reach of NBFCs. The borrower is generally charged a blended rate of interest based on the respective lending rates of the participating regulated entities. As per the Directions, NBFC provides ‘lending services’ to bank in a co-lending arrangement.

7.3 These services primarily involve undertaking activities such as customer sourcing, KYC, credit appraisal, underwriting, servicing, monitoring, collection of repayments and recovery. Since

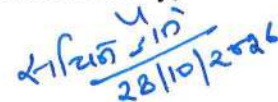
NBFC acts as primary interface with the borrower hence NBFCs are in the best position to provide such services. The Reserve Bank of India, in the Directions, also stated that the regulated entities in such co-lending arrangements shall decide the objective criteria for determining the fees or charges payable for such services.

7.4 Therefore, on recommendations of the 57<sup>th</sup> meeting of GST Council, it is hereby clarified that lending services, as mentioned above, provided by an NBFC to a bank under a co-lending arrangement are taxable under GST and the value of such services shall be the value specified in the contractual agreement entered into between the NBFC and the bank.

8. Field formations under your charge may be instructed accordingly.

9. Difficulties, if any, in the implementation of this circular may be brought to the notice of the Board.

Yours sincerely,

 28/10/2026

(Sachin Jain)  
Joint Secretary, TRU-II