

GST on Services (2026) Part 3: Motor Vehicle Leasing Recoveries, TRAI and Bank FTP / NBFC Co-lending

Description

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Quick summary

- Circular No. 266/12/2026-GST, dated 28/10/2026, settles three service-taxability questions from the 57th GST Council meeting - vehicle leasing recoveries, TRAI's status, and bank/NBFC lending arrangements.
- Registration charges, road tax, insurance premium, FASTag charges and similar statutory and ancillary expenses recovered separately on top of lease rent in motor vehicle leasing are not standalone charges - they form part of the composite leasing service and are taxed at the leasing rate.
- TRAI, despite being a statutory regulatory authority substantially funded by government grants, is not "Government" under section 2(53) of the CGST Act - a distinct statutory body created by Parliament remains a separate juridical entity, per CBIC's own Sectoral FAQs on Government Services.
- The notional interest a bank's Head Office records under the Fund Transfer Pricing (FTP) mechanism, when pooling and allocating funds between branches, is covered by the definition of "interest" for GST exemption purposes under Notification No. 12/2017-Central Tax (Rate) - so it is not taxed as a separate financial service between distinct persons.
- Lending services an NBFC provides to a bank under a co-lending arrangement - sourcing, KYC, credit appraisal, underwriting, servicing and recovery - are taxable under GST, valued at whatever the NBFC-bank contract specifies.

Circular No. 266/12/2026-GST, dated 28 October 2026, implements several more service-taxability clarifications from the GST Council's 57th meeting of 8 October 2026. Two of its five items - research and development versus consultancy services, and the foreign shipping line import-of-services exemption - are already covered in our earlier posts in this "GST on Services" series, so this post covers the three that are genuinely new: vehicle leasing recoveries, TRAI's status, and bank/NBFC lending arrangements.

New to terms such as "composite supply" or "distinct person"? See the technical terms explained in simple words further down.

At a glance

- **Circular:** No. 266/12/2026-GST, Tax Research Unit, CBIC, dated 28 October 2026.
- **Issued under:** section 168(1) of the CGST Act, implementing recommendations of the 57th GST Council meeting of 8 October 2026.
- **This post covers:** statutory/ancillary recoveries in motor vehicle leasing, TRAI's "Government" status, bank Fund Transfer Pricing (FTP) notional interest, and NBFC co-lending services to banks.

Motor vehicle leasing: ancillary recoveries follow the lease rate

Lessors of motor vehicles routinely recover, on top of the lease rent itself, a set of statutory and incidental expenses - **registration charges (including road tax), insurance premium, FASTag charges**, and similar costs relating to the leased vehicle.

The circular examines the structure of such a lease: the lessor purchases and owns the vehicle, undertakes registration, insurance and other statutory compliances, and recovers these costs from the lessee. Since these expenses are **incurred for the vehicle owned by the lessor** and are **closely connected to, and incidental to, the leasing service** itself, the circular clarifies:

> Recovery of such statutory and ancillary expenses forms part of the **value of the composite supply of the leasing service**, and is taxed at the rate applicable to the leasing service of the motor vehicle.

In practice, this means a lessor cannot treat insurance recovery or FASTag recovery as a separate, independently-rated charge - it is bundled into the leasing supply's own value and rate.

TRAI is not "Government" under GST law

TRAI itself had sought clarification on whether it qualifies as "Government" under GST, on the basis that it is a **statutory authority established under the Telecom Regulatory Authority of India Act, 1997**, performs statutory regulatory functions, and is **substantially funded through government grants**.

The circular answers this firmly in the negative:

- "Government" is defined under **section 2(53) of the CGST Act** to mean the **Central Government**.
- CBIC's own **Sectoral FAQs on Government Services** (Point No. 6) already clarify that a statutory body, corporation or authority created by Parliament or a State Legislature is a **juridical entity distinct from the Government**, and cannot itself be regarded as Government - and that regulatory bodies and other autonomous entities do not fall within the definition.
- **TRAI, a statutory regulatory authority, is therefore not "Government"** within the meaning of section 2(53) of the CGST Act, regardless of its statutory character or its government funding.

This clarification has broader relevance for any statutory regulator asking the same question about its own GST position.

Bank Fund Transfer Pricing: notional interest is exempt

Banks use a **Fund Transfer Pricing (FTP) mechanism** internally - the Head Office notionally pools funds from deposit-mobilising branches and allocates them to lending branches at an internally determined price, used to

evaluate branch and business-unit performance. Because the Head Office and its branches are **distinct persons under section 25(4)** of the CGST Act, demands had been raised treating this notional amount as consideration for a financial service between distinct persons.

The circular rejects that approach:

- The notional amount recorded represents the **cost of funds**, and is **akin to interest**.
- 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.
- Accordingly, the **notional amount/interest recorded against the activity of making a loan or advance** under the FTP mechanism is covered by the definition of “interest” for the purpose of the **exemption** under that notification - so it is not separately taxed.

NBFC services to banks under co-lending arrangements are taxable

Under **RBI (Commercial Banks - Transfer and Distribution of Credit Risk) Directions, 2025**, banks and NBFCs **jointly extend credit** to borrowers in a pre-agreed proportion under a co-lending model, combining the bank’s lower cost of funds with the NBFC’s wider reach. The borrower pays a **blended interest rate**, and the NBFC - acting as the primary customer interface - typically undertakes **customer sourcing, KYC, credit appraisal, underwriting, servicing, and collection/recovery** on the bank’s behalf.

The circular clarifies that these **lending services provided by an NBFC to a bank** in a co-lending arrangement are **taxable under GST**, and the **value of such services is the value specified in the contractual agreement** between the NBFC and the bank - not some notional or deemed value.

How CSM & Co LLP can help

Whether it is pricing a vehicle-leasing contract correctly, confirming a statutory body’s GST status, or structuring GST treatment for an FTP arrangement or a co-lending agreement, these clarifications change real invoicing and compliance decisions - please reach out to our team and we will be happy to assist.

Technical terms explained in simple words

Term	What it means
Composite supply	Two or more supplies naturally bundled together in the ordinary course of business, taxed as one supply at the rate of its principal (main) component.
Distinct person	Two registrations of the same legal entity - such as a bank's Head Office and its branches - that GST law treats as separate persons for tax purposes.
Fund Transfer Pricing(FTP)	An internal mechanism banks use to price and record the notional cost of funds moved between branches through the Head Office, for performance measurement.
Co-lending	An arrangement where a bank and an NBFC jointly extend a loan to one borrower in an agreed proportion, combining the bank's funds with the NBFC's reach.

Frequently asked questions

Is GST charged separately on insurance, road tax and FASTag charges recovered in a motor vehicle lease?

No. Circular No. 266/12/2026-GST clarifies that statutory and ancillary expenses a lessor recovers on top of lease rent - registration charges including road tax, insurance premium, FASTag charges and similar incidental expenses - are closely connected to the leasing service and form part of the value of the composite supply of leasing. They are taxed at the rate applicable to the leasing service, not separately.

Is the Telecom Regulatory Authority of India (TRAI) treated as "Government" for GST purposes?

No. Even though TRAI is a statutory authority performing regulatory functions and is substantially funded through government grants, the circular clarifies it is not "Government" within the meaning of section 2(53) of the CGST Act. A statutory body, corporation or authority created by Parliament or a State Legislature is a distinct juridical entity from the Government itself.

Is GST charged on the notional interest banks record under the Fund Transfer Pricing (FTP) mechanism?

No. The circular clarifies that the notional amount or interest a bank's Head Office records when it pools funds from deposit-mobilising branches and allocates them to lending branches is covered by the definition of "interest" under Notification No. 12/2017-Central Tax (Rate), and is therefore exempt - even though the Head Office and its branches are distinct persons under section 25(4) of the CGST Act.

Are services an NBFC provides to a bank under a co-lending arrangement taxable under GST?

Yes. Where an NBFC undertakes customer sourcing, KYC, credit appraisal, underwriting, servicing, and collection or recovery on behalf of a bank in a co-lending arrangement recognised under RBI's 2025 Directions, these lending services are taxable under GST, valued at the amount specified in the NBFC-bank contractual agreement.

Has GST on import of services by a foreign shipping company's Indian establishment, made without consideration, also been addressed in this circular?

Yes, but that topic and the related research-and-development self-certification clarification from the same circular are covered in our earlier posts in this series rather than repeated here, since both were already addressed there in full.

Official sources

- CBIC - GST Circulars (CGST)
- GST Portal

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