

Tax Hotline

June 21, 2002

RECEIVABLES OF NON-BANKING FINANCIAL COMPANIES NOT TO BE ASSESSED AS INCOMES

Following a writ petition moved by the Association of Leasing and Financial Services Companies ("ALFS") on behalf of the non-banking financial companies ("NBFC") in India, the Chennai High Court ("HC") has restrained the Central Board of Direct Taxes of India from assessing receivables of NBFC's as incomes where such amounts have not been recognised as income in their books of accounts.

ALFS after unsuccessfully pleading with the Reserve Bank of India authorities for more than two years to provide some relief to the NBFC sector, decided to move the Chennai High Court. The banks and financial institutions ("FIs") and housing finance companies in India have been allowed a deduction in profit and loss account for provisioning made against non-performing assets ("NPAs"). Banks and FIs are allowed a deduction 7.5% of their NPA provisions.

The Chennai HC order has come as a shot in the arm of the Indian NBFC sector which has been reeling under difficult market conditions, which have played equal havoc with the banking sector as well.

Source: *The Economic Times*, June 20, 2002

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