Indian Journal Of Business Administration (IJBA)
(A National Peer Reviewed Refereed Journal)
ISSN : 0975-6825, Volume 14, Issue 1, January-June 2021, pp. 137-144

A STUDY ON IMPACT OF GOODS AND SERVICE TAX (GST) ON INDIAN BANKING SECTOR

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ABSTRACT

Banking sector acts a very vital role in a macro economic and monetary policies of any country overall context and the business dynamics of this sector largely varies from other sectors. The regulatory bodies for this sector is very strong and leaves no possibility for any differences. Unlike, other businesses where there are many un-organised ways of style of workings still exist, same is not the case with this sector which is largely organised in nature. Therefore, any issues for this sector has to be closely looked at and timely resolved so to that larger economic interest of the nation is achieved. This article lay down various disputes that a Banking sector may look due to introduction of GST and the implications so as to improve the rules, wherever required to be address the negative effect of Goods and Service Tax (GST) on the Banking sector. Various aspects discussed with this would apply to all types of banks viz., Nationalised Banks, Private Banks, Public Banks, Co-operative Banks etc.

Keywords : *GST, Banking sector, Co-operative Banks*

Introduction

With the development of ancient civilizations, the tax system has also evolved. Taxes are levied by the government in any country for the purposes of welfare and development activities as well as defense and maintenance of law and order. Through the government tax system, the government also tries to make provision for public goods to meet the collective needs of the people of the country. The

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introduction of GST is proving to be an important step in the reform of indirect taxation under the Indian tax system. In the tax system implemented earlier, there was a system of separate taxes by the central and state governments on many products, due to which the common consumer had to pay tax on the same product multiple times.

The implementation of GST has got rid of double taxes on various products. GST can be termed as "one tax, one nation and one market". GST is building an impact on every business sector in the country, including service sector. The service sector like banking, insurance and other financial services. The impact of GST has been also affected banking sector. In the Economic Development of the country, banking sector plays a huge role. To growth of business banks provide finance or money to businessmens as well as needy people. Finance and Money have been treated as blood of the business cycle. Banks also accepting deposits from the public. In India the banking system is undergoing structural transformation under the deregulation, institutional, technological advances, legal, taxation reforms and influence of globalization.

Objectives of the study

- To study the critical implications of GST on the banking sector.
- To study the issues and challenges of banking sector after implementation of GST.
- To know the tax rates variations of banking sector after GST.
- To explore the impact of GST on customers of the banks.

An overview on GST

Goods and Services Tax, popularly called GST, is applicable on the supply of goods and services. It has replaced the taxes like excise, VAT, and service tax. The main objective behind the
introduction of GST by the Central Government is to introduce a uniform taxation system in the country and at the same time allow full tax credit from the purchase of inputs and capital goods. GST can also be seen as an aspect of eliminating the cascading effect of cost of production and distribution of goods and services.

Critical implications of GST on the Banking Sector

The framework under the Law of Model GST does not allow a lot of benefits or consideration to banks for understanding the type of transactions they make constantly and on a great scale. Some impacts and issues relating to the provisions in the Law of Model GST are discussed below:

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A. Registration has become a problem : During the pre-GST administration, banks could release its service tax abidance by a single centralised registration process. Now, under the current GST regime, these banks need to get distinctive registration for each separate state that they work into. Along with the burden of GST compliance, the filing of returns has also expanded liberally wherever periodicity of returns, level of details needed in such returns and number of return formats are concerned.

B. Leveraging and De-Leveraging input Tax Credit (ITC) : Banks had an option of reversing 50% of CENVAT credit which was availed against the inputs and as well as input services, while CENVAT credit for capital goods was available without a reversal condition, during the pre-GST regime.

C. Adjudication and assessment made difficult : The assessment was performed by the state regulators under which a specific branch is registered in the previous tax regime. After implementation of GST, it is compulsory that all registered branches of banks will need to justify their position as per their chargeability in a State and also a acceptable cause for using ITC (Input Tax Credit) in different states. As far as judgement is concerned, the process will be prolonged owing to more than one judging authority and the difference in their opinions on a similar underlying issue. Under the pre-GST regime, a taxpayer was adjudged by only one adjudicating authority for an issue. Under GST, dealing with the difference in the opinion by different authorities has become difficult.

Issues and challenges of Banking Sector

1. Separate registration for each state where they operate : All banks in India had a centralized registration for all its branches before implementation of GST. Now, after the implementation of GST 2017 act, the banks having branches in more than one state will required to obtain registration in each state in the GST regime. It creates compliance burden about filling of multiple returns state-wise, multiple audits and assessments.

2. Determining place of supply could be critical :

- As per the records of supplier of services, place of supply of services for banking shall be the location of recipient of services.
- If the location of the recipient of services is not available on the records of the supplier, then the place of supply shall be the location of the supplier.
- However what constitutes the "records of the supplier" is not defined in the law leading to multiple interpretations as to whether it is to be understood

as accounting records or customer records, vendor records so on.

3. Interstate transaction between the same Banks at two branches is taxable : Before implementation of GST, transactions between two branches of the same bank had exempted for tax under service tax rules, but under GST Act 2017, these transaction would be attract chargable under Integrated Goods and Services Tax (IGST).

4. Actionable claims : Actionable claims did not consist any tax before July, 2017 but after implementation of GST these actionable claims are also now included in the meaning of supply of goods. So these are taxable under GST Act.

5. Interest is taxable : Pre GST implementation interest income and discount provide by the banks are under negative list, so no tax can be payable under service tax. But now under GST service is defined in wide manner to cover anything (other than goods), which may also cover interest. In other parts of the world does not levy GST on interest, India is only the country levy tax on interest.

6. Increase in compliance : Almost every bank has a multi state presence, and under GST, they are required to pay taxes at the state and central level therefore, banks are required to get registration of for each state where they function. In order to maintain this, they require separate books for every branch to create proper control over their usage. This has led to an increase in compliance levels. Therefore increase in compliance is one of the major GST implications and challenges. Along with the burden of GST compliance, return filing has expanded liberally where the periodicity of returns and number of return formats are concerned.

7. Revenue recognition under GST : Banks and NBFCs may face issues regarding to revenue recognition as the majority of their services are related to the different sectors and segments.

8. Account related financial services : In the digitalization era, professionals, businessmen, and others can get different types of services anywhere across the country, and there is a possibility that they may move to a new location. This can cause hardship due to different address. On the other hand, branches provide different types of services relating to payment and other goods, within the state and outside the state, to determine the place where these services are provided would be a tough deal.

9. Financial services not related to account : Providing financial services to people who are running a business from a remote location and managing a bank account from different location may cause GST implications and challenges because the area of the service provider is different from the area of the operator.

10. Transactions affected by GST : Loans given by NBFCs and banks are not affected, because these are money to money transactions. Therefore no GST on loans and interest charged there on. In NBFCs or banks, lease may be either supply of services or supply of goods both attracts GST charges that is similar to goods and services that is being leased. Under Hire purchase process, where the buyer of an asset pays regular instalments and takes asset possession from the beginning of the agreement, but the ownership is transferred only when all instalment are paid. In this, cost price and charges of leasing are applicable to Goods and Service Tax.

Positive impact of GST (Goods and service tax) on Banking Industry :

The benefits to the banking industry are as follows:

- Banks would be able to set off their GST obligations against credit received on goods purchase.
- Banks were qualified to take credit of excise duty and service tax on purchase of qualifying goods and services Under the CENVAT system, which is used for provision of output service, but under GST, banks will take input tax credit, which shall be used by banks for payment of output liability.
- Banks don't receive ITC (Input Tax Credit) of State VAT paid on purchase of any goods by them as all of the indirect taxes is included in GST, banks would be able to take credit of GST paid on purchasing of goods also.
- GST may lead to minimizing tax evasion. Carrying on business would be easier, and the increase in business may lead to additional demand of fund, which in turn lead to increase in transactions in the bank as the business and present developments go for digital transactions.

Positive impact of GST also includes self regulatory taxation system with transparency, uniform taxation rate, and it can increase the number of online banking. In contrast, the GST implications and challenges would include costlier banking for customers etc.

Tax rates imposed by banks :

- Before GST Act 2017, the rate of service tax was 15 percent, but after GST implementation it increased to 18 percent tax rate.
- No Centraliziation registration is possible under GST regime. Banks need to register separately if they open branch for every state. They can have

only one registration for many branches in one state.

- An annual return and three times a monthly return are to be furnished by the bank.
- As per definition of Service provided by section 2(102), Service means anything that is other than goods. By interpreting it in that way interest earned by banks is responsible to be taxed in GST. Further according to Schedule III, which describes activities or transactions should not be treated as supply of goods and services. So, No exemption is provided to any banking services. The Indian GST law should make clear whether the ambit of GST includes or excludes the interest on GST.
- Inter sale as well as Purchase of Foreign currency by banks or authorized dealers of foreign exchange are liable to be taxed in GST since no exemption is provided.
- Services by RBI are liable to be taxed in GST since no exemption is provided to them also.
- As GST is considered a supply tax regime, so for every kind of transaction, banks should determine the place of consumption and payment of GST.
- GST increases the cost of capital as under GST 50 percent of CENVAT is charged which is then reversed, reducing credit of about 50 percent.
- Pension - not taxable
- Deposits - not taxable
- Debit and credit cards -18%
- Loan - 18%
- Investments - 18%
- Banking facilities - 18%
- Remittances (RTGS, NEFT) - 18%
- Insurance -18%
- ATM - 18%
- Input tax credit -18%
- Foreign exchange - 1% of gross rupee.

Difficulties to Banking Industry :

- Every bank need to register for their all office location.
- They have to maintain separate books of accounts for every state where they registered.
- They have to make auditing of the financial statements for each place where they

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registered.

- The tax burden is increased because tax rate is increased to 18% compared to earlier service tax of 15%.
- The another difficulty is that the IT software systems of banks, which are needed to update.
- Lack of skilled resources is also a main problem for banking industry.
- Lack of training with updated GST subject knowledge.

Impact of GST on customers of Banks :

- AMC of debit and credit card increased due to GST implementation.
- Due to GST implementation on Banking industry Loans charges are also increased because of increase in 3% of tax rate.
- Mutual funds also affected to customers after implementation of GST.
- ATM Services charges are also hike and become costly after implementation GST.

Conclusion

The GST system is launched to restructure for simplify current indirect Tax system in India. In the beginning of GST implementation, all the sectors were facing many difficulties. But this system will help to improve the current taxation system and will further help to reduce the inefficiencies in the present taxation system. This new system will provide so many advantages like reduced complaints and complexities, unified tax system etc. May be the last consumer will find its cost a bit higher, but it will remove all the discrepancies. GST also impact on the working cost of banks, they will also face a higher cost due to mandatory registration and inter-state goods and service tax. Overall, the impact of GST on Banks reflects to be such that operations of banks, transactions of banks, accounting and compliance should be reconsidered in its totality and ultimately, there is need for more analytical based research for successful implementation.

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