

Impact Of Goods And Service Tax (Gst) On The Banking Sector

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Abstract

Goods and Service Tax (GST) is becoming a game changer for the Indian economy. GST is a comprehensive indirect tax levied on manufacture, sale and consumption of goods as well as services at State and National level. The main objective of GST is to consolidate all indirect taxes in to a single tax. Introduction of GST in India would rationalize the tax content in product price; enhance the ability of business entities to compete globally. The Goods and Service Tax was launched in India on the midnight of 30th June 2017 by forming the legislation which took 17 years i.e. from the year 2000 to 2017. There were many criticisms like introduction of GST would increase the cost of goods of daily use and it will affect the people adversely, especially the middle and the lower income class. GST is applicable in almost all the industries like Technology, Consumer Durable Goods, Entertainment, Chemical, Pharmaceuticals, Construction, Agriculture, and Banking Industry and so on. This paper is an attempt to study on the impact of GST on Banking Industry. In India, Banking Sector is one of the largest service sectors. It plays a major role in the economic development of our nation. Introduction of GST is very challenging for this sector due to the higher rates of tax on several services as compared to the pre-GST service tax rate mechanism. Transaction fees on services such as Credit Card Payments, Fund Transfer, ATM transactions, Processing fees on Loans etc. is raised to 18% in the GST regime and also other challenges like state wise registration requirement, place of supply of goods and services, taxability of interest reversal of input tax credit on capital goods so on. This paper tries to give a glance on the challenges and the problems faced by the banking sector, and the benefits/gains it would reap after the introduction of GST in India.

Keywords: *Goods and Service Tax, Banking Sector, Industry, Taxes, Service Charges.*

1.0 Introduction:

The Goods and Service Tax (GST), introduced by France in 1954 and now adopted by 140 countries, is a wide concept that simplifies the big tax structure to support and enhance the economic growth. It is an indirect tax applicable throughout the country and in India it has replaced the multiple taxes levied by Central and State Government. This reform process of tax regime had started in the late 90's. A single or common tax was proposed in 1999 which was headed by then finance minister of West Bengal Shri Asim Das Gupta to design a model for GST. This proposal has witnessed so many years' of discussions and disagreements among the ruling and non ruling parties and finally it was launched at midnight on 30th June 2017 by the Prime Minister of India Shri Narendra Modi.

A single GST replaced several existing taxes and levies like excise duty, service tax, additional customs duty, surcharges, state level VAT, Octroi, entertainment tax, advertisement tax, entry tax, commercial tax, value added tax etc. It has unified all the indirect taxes under a single umbrella and is levied on all transactions such as Sale transfer, Purchase lease or Import of Goods and Services etc. India has adopted dual GST model that is

administered by both State and Central Governments. Transactions made within a state will be levied with CGST and State GST (SGST). For those transactions which are interstate, an integrated GST is levied by the central government.

Introduction of GST in India would rationalize the tax content in Product Price; enhance the ability of Business Entities to compete globally. GST is applicable in almost all industries like Technology, Consumer Durable Goods, Entertainment, Chemical, Pharmaceuticals, Construction, Agriculture, Banking and Financial Institutions and so on. Undoubtedly all the industries will get affected by the GST. With a standard tax of 18% being implemented, there will be some benefits and some damages. This paper mainly focuses on the Banking and Financial sector as it is one of the crucial sectors in our country.

2.0 Review of literature:

- According to Agogo Mawuli (May 2014) in his Study on "Goods and Service Tax-An Appraisal" he found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to

implement GST then the rate of GST should be less than 10% for growth.

- According to Dr. R. Vasanthagopal (2011) in his study on “GST in India: A Big Leap in the Indirect Taxation System” concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.
- According to Ehtisham Ahmed and Satya Poddar (2009) in their study on “Goods and Service Tax Reforms and Intergovernmental Consideration in India” found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.
- According to Nitin Kumar (2014) in his study on “Goods and Service Tax- A Way Forward” concluded that implementation of GST in India help to remove economic distortion by current indirect tax system and

expected to encourage unbiased tax structure which is indifferent to geographical locations.

- According to Pinki, Supriya Kammav and Richa Varma (July 2014) in their study on “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.
- According to Monika Sherawat and Upasana Dhanda (December 2015) in their study on “GST in India: A key tax reform”, concluded that there are various challenges in way of GST implementation and it need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

3.0 Objectives of the study:

1. To understand the concept of GST

2. To study the effect of GST on banking and financial services.
3. To compare the previous and existing regime of indirect taxes.

4.0 Research Methodology:

All the data in this paper are collected through secondary sources like journals, magazines, news papers, publications and also various websites and e-journals.

5.0 Impact of GST on banking sector :

GST replaced the following taxes and levies:

- **Excise Duty:** It is a tax levied on those goods which are manufactured within the country.
- **Service Tax:** Service tax is a tax which is levied on the services provided by any entity, firm or any organization.
- **Octroi:** It is a tax levied by some state government like Gujarat and Maharashtra when the purchase enters their state.
- **Entertainment tax:** It is levied on every financial transaction that is related to entertainment like amusement parks, stage shows,

arcades, cinemas, exhibitions, sports activities etc.

- **Entry Tax:** It is a tax levied on the movement of goods from one state to another imposed by the state governments in India
- **Custom Duties:** It is a tax which is levied on the goods that are imported in to the country.
- **VAT:** It stands for Value Added tax and it is levied on the movable goods in the country. The term value addition means the increase in value of goods and services at each stage of production or transfer of goods.
- **Commercial Tax:** It is a type of tax that is levied in contingency with the inherent value, earnings, profit, costs, and withholdings with regard to the commercial provision of a product or service.

All these above mentioned taxes are replaced now in to a single tax called Goods and Service Taxes (GST).

Financial sector or financial institutions like Banks and NBFCs are the backbone of any economy. They are the drivers of the economy and contribute around 6% of indirect taxes. Thus they play a vital role in the economic development of a country.

Banking sector has always been a huge pillar of the Indian economy. Implementation of GST is much challenging specifically in this sector due to the higher rates of service tax as compared to current rate of service tax. Earlier Financial/Banking sector had a service tax of 14.5%, but after the implementation of GST the service charge has hiked to 18%, hence it has become expensive for the customer. Apart from hike in service charges, there are many formalities that the banks and customers need to follow. There are different set of processes and compliances required to be done by the banks. Apart from these there are few critical implications of GST on banking sector

- **Requirement of State Wise Registration:**

Previously all banks were having centralized registration under the service tax laws for all its branches. Now this has changed, Banks for their branches in different states and Union Territories will have to go for separate registration under the GST. Now under GST all records have to be maintained separately for each state.

- **Place of supply is important:**

GST is a tax regime which is based on place of supply. Usually banks go for both within and outside state transaction.

Therefore it is difficult to determine the place of supply. It is difficult to decide on whether the payment is made against CGST, SGST, and IGST based on the type of transaction. Further interstate supplies of goods or services between two branches of the same bank located in two states will also attract IGST. The GST legislation says that if an Assessee wrongly pays, say CGST and SGST instead of IGST then the customer has to pay current taxes again and can claim the refund of wrongly paid taxes.

- **Taxability of interest:**

In GST the term service is meant in a wide manner to cover anything other than goods which covers interest as well. The GST law in India states that the interest will be taxable.

- **Paying GST at applicable rate:**

With GST into effect, the service tax is raised to 18% from 15% previously. This is ultimately affecting the banking services such as issue of cheque books and demand drafts which will be more expensive for retail customers. Other effects in the Banking sector are the interest rate on loans, foreign currency, trading in securities which will fall under the scope of GST.

Keeping aside the above mentioned negatives, the banking sector shall see some benefits like; Bank will be able to set off

their GST liabilities against credit received on purchase of goods. All the indirect taxes will be subsumed in GST and banks will be able to take credit of the GST paid on procurement of goods as well. It will help to reduce tax evasion. Under GST, business can be done easily. The increase in business will lead to demand for additional funds and which will lead to increase in number of transaction with banks. Below are some of the Banking services that have witnessed increased charges or processing fees with GST.

- **ATM Charges:**

For other bank ATMS the charge is Rs 20 plus GST and Rs 10 plus GST for home branch ATMs. All normal savings bank accounts will continue to get eight free ATM transactions in metros and 10 free transactions in non-metro cities.

- **Online fund transfer:**

MPS fund transfer charges through internet banking/UPI/IUSSD will be Rs 5 plus GST for amounts of up to Rs 1 lakh; Rs 15 plus GST for above Rs 1 lakh and up to Rs 2 lakh; and Rs 25 plus GST for above Rs 2 lakh and up to Rs 5 lakh.

- **Deposits through banking correspondents:**

Cash deposit through banking correspondent of up to Rs 10,000 will be charged at 0.25 per cent of the value with a minimum of Rs 2 and maximum of Rs 8 plus GST. Cash withdrawal through banking correspondent of up to Rs 2,000 will be charged at 2.50 per cent of the transaction value (minimum of Rs 6) plus GST.

- **Cheque book charges:**

Issue of a 10-leaf cheque book will now cost Rs 30 plus GST; 25-leaf book, Rs 75 plus GST and 50-leaf book at Rs 150 plus GST.

- **Exchange of damaged currency notes:**

Service charges for exchange of soiled/imperfect notes, up to 20 pieces and value of Rs 5,000 will attract no charge. More than 20 pieces will invite Rs 2 per piece plus GST. For value above Rs 5,000, Rs 2 per piece or Rs 5 per 1,000 plus service tax, whichever is higher on the entire order will be charged.

- **Processing fees on loans:**

Those applying for personal loan, home loan and other types of credit facility would have to shell out 3% more tax on the processing fee and other charges payable on the loan in

the advent of 18% GST rate implementation.

• **Locker rent:**

The Locker rent has increased to rupees 1500/- to rupees 7000/- annually depending on the location of the branch.

- **Pre-GST tax Structure:** The Following chart shows the existing tax structure that was followed before the introduction of GST. Indirect tax is levied by both centre and state government.

Comparing Pre-GST and GST regime

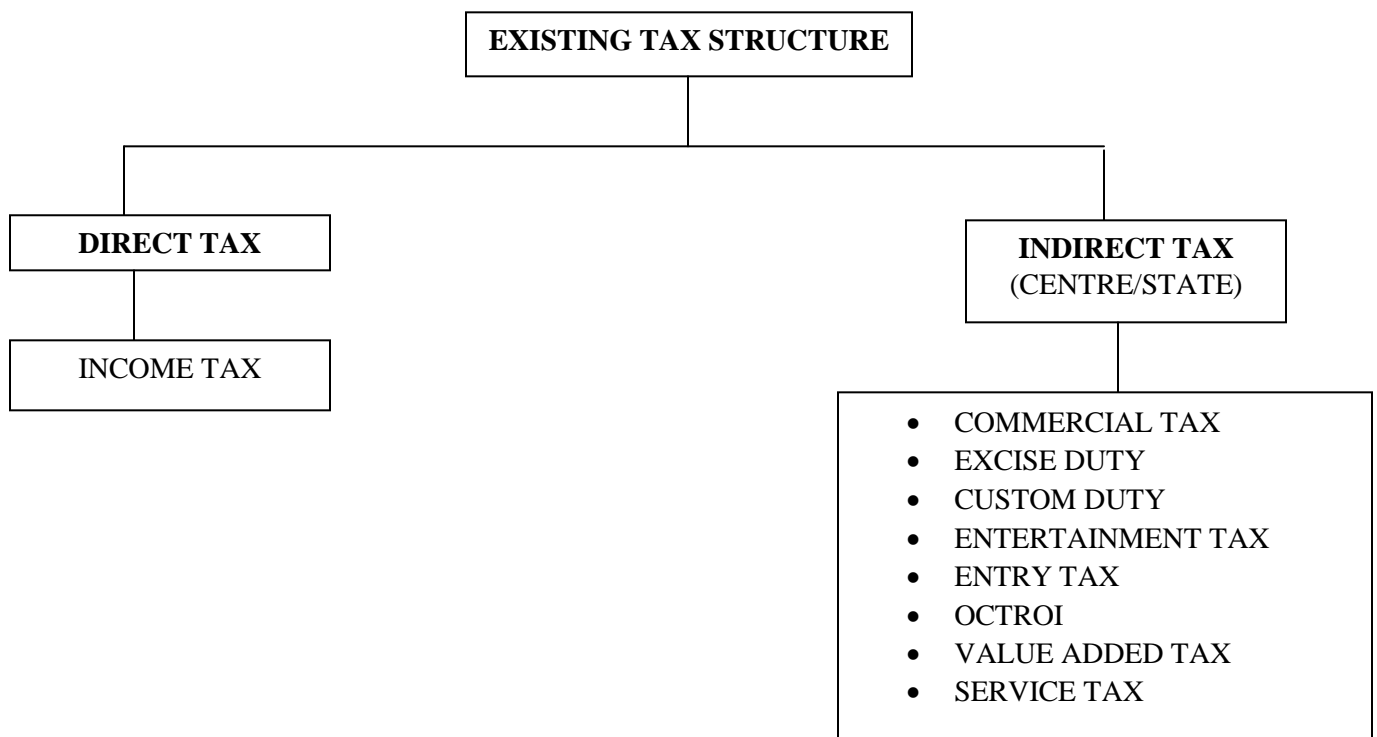


Figure 5.1: Pre-GST Tax Structure of India

- **Tax structure under GST:** The following chart shows the structure of goods and service tax levied on goods supplied and services rendered in the country. GST is levied on both interstate and intra state transactions by both central and state government. It is levied on the rate of 0%, 5%, 12%, 18%, 28% and 28% plus cess.

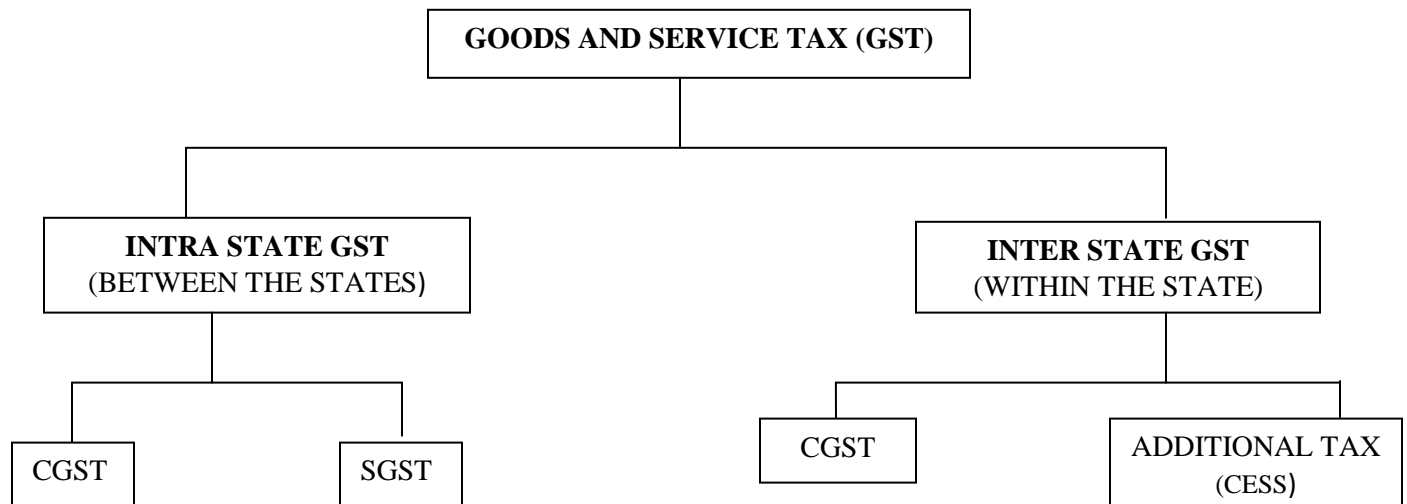


Figure 5.2: Present GST Structure

6.0 Conclusion:

The GST regime is a half hearted attempt to rationalize indirect tax structure. The government of India has implemented GST to simplify the indirect tax system and to help in removing the inefficiencies created by the then prevailing heterogeneous tax system in the country. The launch of GST has created many problems for the banking sector as customers will be charged 3% more under GST and it is creating a lot of confusion on the charges levied by banks to its customers. Common banking services which will attract higher service tax

including debit card, fund transfer, ATM withdrawal beyond the number of free services, home loan charges, locker rentals, cheque book issue charges, passbook charges, collection of bills, cash handling charges, outstation cheques, SMS alert etc. thus the banking sector has both positive and negative impact. On one side it evades multiple systems and on the other side consumers will have to shell out more for banking services with the roll out of GST.

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