GST IT’S IMPACT ON BANKING SECTOR

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ABSTRACT:
Banking sector is one of the most important sectors in India. It contributes nearly 7.7% towards GDP. It is one of the largest service sectors in India. The implementation of GST causes a major impact on banking sector resulting in shifting from the way they had been operating earlier. This paper would be about the impact on the banking sector.

INTRODUCTION:
Taxes are one of the main sources of income for government. The earning from tax is being used for various public welfare and other projects by government. It plays a crucial role in the growth of country’s economy. The introduction of GST is the significant phase of India with the unanimous approval of all the members of the parliament. GST Bill 2016 leaves a mark on the history of India. Overall it can be said that GST will have a substantial impact on the entire working of the industries in the nation. GST might result it into increasing the cost of the banking and financial services at present. There was an increase in tax rate for banking services that was being charged earlier.

VARIOUS BANKING SERVICES:
There are various services which are performed by banks they are:
1. Acceptance of deposits
2. Discounting of bills
3. Granting of loans
4. Collecting cheques, Bills and promotes for customers.
5. Collecting dividend and interest on various securities.

Key Words: GST, Banking, Banking Service, CENVAT
6. Purchasing and selling of securities.
7. Payment of telephone bills, insurance premium etc.,
8. Issue of Credit and Debit cards.
9. Purchases or sells Foreign Exchange.
10. Undertakes Merchant Bank activities and so on.

GST-IMPACT ON BANKING SECTOR:
Transaction fees in financial services are likely to increase as the government has put these under 18% tax bracket in the new GST tax regime. These services were so far taxed at 15% and the hike in tax rate means that individuals will have to pay RS.3 more for every RS.100 paid as charges for banking transaction.

For example, if you withdraw money from an ATM other than your bank’s ATM after exceeding the free transaction limit, you are typically charged RS.20 plus service tax, which comes around RS.23 with the imposition of GST this amount, goes upto RS.23.60.

BEFORE-GST:
Registration : Banks have the option of centralized registration in terms of rule 4(2) of the Service Tax Rules, 1994.
Payment Date: By the 6th of next month, for the month of March-March 31.
Returns Date : April to September-25th October, October to March-25th April.

TAXATION BEFORE IMPLEMENTATION OF GST:
- No Service Tax is payable on income earned by way of Interest Income.
- Commission income earned is liable to pay Service tax.
- Brokerage Income earned is liable to pay Service tax.
- Agency Services earned by banks is liable to Service tax.
- Portfolio Management Service is liable to Service tax.
- Credit and Debit charges liable to Service tax.
- Income earned by way of penalties, retention charges are also liable for payment of Service tax.
• Inter sale or purchase of Foreign Currency amongst bank or authorized dealers of foreign exchange is not liable to Service tax.

• Services by the Reserve Bank are not liable to Service tax.

• Under CENVAT credit rules, banks have the option to pay for every month an amount equal to 50% of CENVAT credit availed against input and input services in that month. The CENVAT credit could also be availed on no reversal conditions.

UNDER GST:

• Before implementation 15% Service tax rate is followed, after GST implementation 18% tax rate follows.

• Centralized registration is not available under GST. Bank has to register separately for every state where they have branch (section 22 of CGST Act). In case a bank has multiple branches in one state, only one registration is required for all the branches in that state.

• Banks have to furnish 3 returns every month and an annual return.

• As per Service definition given by section 2(102), Service means anything other than goods. By interpreting this, interest earned by banks will also be taxed in GST. Further schedule III which describes activities or transactions which shall be neither treated as supply of goods and services. No exemption is given to any banking services. The GST law in India should clarify if interest is outside the ambit of GST.

• Inter sale or Purchase of Foreign currency amongst bank or authorized dealers of foreign exchange is also taxable in GST as no exemption is given.

• Services by RBI are also taxable in GST as no exemption is given.

• GST is a place of supply based tax regime. Hence, for every transaction in GST, the bank will need to determine the place of consumption where GST will be paid.

• Under GST, 50% of the CENVAT credit availed against inputs, input services and capital goods is to be reversed which leaves them with a position of reduced credit of 50% on capital goods thereby increasing cost of capital.

ISSUES RELATED TO REVENUE RECOGNITION UNDER GST:

1. ACCOUNT LINKED FINANCIAL SERVICES:
   a. The place of supply will be the location of the recipient of services on the records of the supplier of services. In the digitized and centralized scenario prevailing in India identifying the state of
location of service recipient will be quite difficult. In cases where the service recipients like professionals, manufacturers, traders and other workers often shift from one place to other in search of better opportunities, the service provider may have different address namely permanent address, current address, the address of communication and KYC address.

2. NON-ACCOUNT LINKED FINANCIAL SERVICES:
   a. The place of supply of service here would be the location of service provider. This will again hit such companies which are widespread in remote locations to establish their presence but operate and transact from a back office located in some other state.

3. ACTIONABLE CLAIMS:
   a. Actionable claims do not constitute as a service under Service Tax, and hence no tax is payable under the current regime. Under GST actionable claims are now included in the definition of supply of goods. Services provided form bills discounted to securitization will now be taxed as an effect B2C and B2B majorly.

1. BENEFITS TO BANKING INDUSTRY:
   1. Bank will be able to set off their GST liabilities against credit received on purchase of goods.
   2. Banks do not get input tax credit of State VAT paid on any goods procured by them. As all these indirect taxes will be subsumed in GST, banks will be able to take credit of GST paid on procurement of goods as well.
   3. Input tax credit is not allowed as per current CENVAT rules. But under GST regime input tax credit will be allowed which would be used by a bank for making outward supply in the course of GST. Will help to reduce tax evasion. Under GST doing business will be easy. The increase in business will lead to additional demand of funds. Addition demand of funds will lead to increase in number of transactions in the bank as the business and current scenarios ask to go for digital transaction.

DIFFICULTIES TO BANKING INDUSTRY:

1. All the bank need to register for their all office location.
2. They have to maintain separate books of account to have a control for all input tax credit and utilized and unutilized credit.
3. Due to registration of all location many banks and financial institutions may be in for a lot of trouble as they could just see the complexity in paying taxes increase under the GST.
4. Complying with the requirements of reverse charge and partial reverse charge mechanism would add to further compliance costs.

CONCLUSION:

The GST system is basically restructured to simplify current critical indirect Tax system in India. Like anything new, at the time of implementation of GST all the sector facing many troubles. But it will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system. It gives various advantages such as unified tax system, easy input credit, reduced compliances etc., Thus we conclude, that GST play a dynamic role in the growth and development of our country. But in the banking sector it hikes the service tax rate, causes discomfort to the users.

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