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IMPACT OF GST ON THE FINANCIAL SECTOR IN INDIA – A REVIEW

Dr. Repalle Giddaiah

Assistant Professor, Department of Commerce, School of Economics & Commerce, CMR University – Bangalore – 560043

ABSTRACT

Banks have always been a huge pillar of the Indian economy and taxpayers are literally banking on them for financial needs. At the stroke of June 30th midnight, India witnessed the introduction of GST at amidnight ceremony in the Central hall of Parliament. Prime Minister Narendra Modi theas a "Good and Simple Tax" that will be "not only a tax reform but an economic and social reform as well" that will unify the nation, "Check corruption and end harassment at hands of officers". Goods & Service Tax (GST) was recommended in 1978 and could see the light on 1st2017. GST which would replace Eleven (11) indirect taxes in India has impact on all major business sectors. Banking industryget impacted significantly. Obtaining separation registration in each State, identifying inter-state transactions, valuation, operational restructuring, reconciliation of statewide branches, filing of returns on monthly basis are some of the challenges. In this paper has been discussed various issues which could impact the banks.

Banks would be having multiple branches spread across different states and the transactions would also be voluminous. GST levy is on supply concept which is very wide. Banks need to review all the income transactions to assess GST impact. All reports and returns are being automated in GST law. Therefore, compliance plays a key role in GST and it is expected that compliance would substantially increase for the banks due to the numbers. This paper lay down various issues that a Banking sector may face due to advent of GST and the suggestions so as to amend the rules, wherever required to be address the negative impact of GST on the Banking sector. Various aspects discussed herewith would apply to all types of banks viz., Nationalized Banks, Private Banks, Public Banks, Co-operative Banks etc. However, the article does not lay discussion on Non-Banking Financial Companies (NBFC's), Micro Finance companies, Credit Cooperative societies etc.

KEYWORDS : Banking, Goods & Services Tax (GST) and Financial Sector.

Introduction:

Banking diligence plays a very important role in the Indian economy. It is like a central nerve to a nation's economy as it caters to the financial needs of credit in all the domains of the society. The growth and advancements in technology has led to a paradigm shift in the entire banking operations and systems. Further the development of e-banking created a massive change in terms of fulfilling customers' divergent needs. Moreover, the two fold objectives of current budget, namely, demonetization and GST, purely depend on e-banking. Many are calling it the biggest tax reform since India's independence. The Goods and Services Tax (GST), will change the current indirect tax structure and make it a single tax system throughout the nation. It is one nation one tax system is expected to reduce tax evasion and give rise to transparency. The amount of procedural compliance and paperwork will decrease immensely due to the subsuming of many consumption taxes and bringing it under one tax: the GST. Overall, consumers will benefit from the free movement of goods across the country without the burden of multiple taxes. While the impact of the Goods and Services Tax rollout will touch every industry in India, the impact it has on the financial sector needs to be looked at in detail. The financial sector which touches the life of every Indian is one of the largest industries in the country, apart from being a major contributor to the nation's GDP it is also seen as a key driver for future growth. There has been a lot of discussion but very little clarity on how things will change for the average Indian post GST implementation.

GST on Banks - Banks charge a transaction fee for all the transactions that happen through them, this cost will rise from the 15 percent tax in the current regime to 18 percent with GST. So, banking transactions such as Credit card payments, Fund transfer, ATM transactions and processing fees on loans etc., is improved to 18 percent tax bracket in the new GST regime; where the banks are levying charges, increased tax rates would apply. In India, banking sector is one of the largest service sectors. Implementation of GST is challenging sector due to the higher rates as compared to the current tax rate mechanism.

a. The hike in the tax rate means, individuals will have to pay Rs 3 more for every Rs 100 paid as charges/fees for banking transactions.
b. Most banks have now applied transaction charges on cash withdrawals from different bank ATMs or cash withdrawals from branch (first 5 transactions is free).
c. Bank branches provide services to each other, which will be taxable under GST (they can later claim input tax credit). But this will increase the paperwork and the operating cost also.
d. Good news for business consumers is that they can claim ITC on the banking services paid on their business accounts.

Registration of Bank Branches - Banks having branches in different states must register in each state and will come under the service tax compliance of that respective state. It is enough to register once for multiple branches in each state. It will increase compliance, reduce the pressure on documentation and help in ensuring flawless integration of accounts in various states.

Service Tax for Inter-Branch Services - Bank continuously provides services to each other, which are also taxable under GST. However, it can be claimed as input credit for further set off.

Input Tax Credit under GST - Input Tax in simple terms is when you are paying tax for your output produced you can reduce the tax that you have already paid on inputs. It is not allowed as per current tax structure. Under GST regime, it will be allowed to be set-off against the taxes payable by the bank on making outward supply. However, they must maintain separate books of account to have a control for all input tax credit and utilized and unutilized credit.

Complexities in the Nature of Transactions - The banking industry has come up with many ways of doing business where the transaction trials are very difficult to identify even for the banking employees. All the banking transactions are routed through CBS (Core Banking System) where debits and credits of lakhs of transactions happen on real-time basis. Banks deal with number of diversified partner's right from the Government till the individual citizens. Further the accounts are maintained at home branch where in the services are received by the customer at any of its branches located anywhere in the world which would be transacting branch. The GST impact needs to be analyzed at each level of operations like Cheque / Drafts/ Cards/ Issue process, ATM operation, Credit wing, Securities, Letter of credit, Net banking, Cash backs and Reward points, Loans and Advances, Deposits, Point of Sales transactions and it goes on and on. It is conditional free services for maintaining minimum balance of certain amount could be subjected to valuation issues unless care taken. The major challenge for each bank would be to identify and understand its own nature of supplies, the transaction flow and then the place and time of supply, the valuation in absence of consideration and majorly identification of the location from where the service is rendered. Banks have the practice of providing a number of facilities to its officers (Staff at various grades) like Free /Concessional accommodation, Food, Travel, Health kits, Vehicles, Loans, etc provided over and above the terms of employment. All these benefits are liable to Schedule I covers under the GST. Segregation of so many facilities into either Gifts or Supply of goods or Services would be difficult for the management.

Registration woes - Unlike service tax law, there is no concept of centralized registration in GST. State wise registration needs to be obtained in each state where there is business. Even if ATMs are installed without actual branches, then also registration could be required under GST, though it could the fixed establishment of the vendor who manages them. More number of registrations led to more administrative woes. Keeping track of expenditures incurred, ascertaining the type of tax applicable, distribution of credits etc. would pose challenge as these aspects to be taken care at State level rather than at Central level. Normally banks have one Head Office, multiple zonal offices and then Regional office and then come the branches. Selection of principal place of business in each state itself could be an issue. Adding all the other place of business in the registration would be a practical challenge considering the number of branches in a state. If there are common expenses incurred at a particular location, then there is also a need for obtaining input service distributor (ISD) registration in GST to distribute input tax credits. If there is inter-unit billing system, this need may not arise.

Increased Compliance - It is also means State wise filing of returns. The common returns to be filed in GST are GSTR-1 (Outward supplies), GSTR-2 (Inwards supplies) and GST-3 (Consolidated return). If the banks obtain ISD registration, then there is an additional return to be filed in form GSTR-6. It is a Matching concept which is being introduced in GST for credits. If the details of outward supplies uploaded by suppliers and disclosed by assessee are not matching, then there is a threat to credits. Therefore, there is a need for reconciliation of inward and outward supply details on monthly basis. Such reconciliation is needed for each registered state. Considering the number of branches a bank can have in a State, the reconciliation would take substantial time and would need automation. Cost of compliance could also go up as banks would be filing returns broken into 3 different days every month for each State as against one ST-3 return on half yearly basis at central location. Further, banks need to keep track and record of services provided to other branches located in other States and the services provided to State/ Central Government which are subject to reverse charge mechanism at registration level. Even the statements issued by the banks in lieu of invoices need to contain all the mandatory requirements of a tax invoice except the consecutive serial number and the address of the recipient of service. It would certainly increase the compliance work at each transaction level.

Impact on input tax credit - Normally banks do not avail credit of VAT paid on procurements as generally there would not be any sale of goods. In exceptional cases, there could be sale of repossessed assets from customers on account of payment default. Service tax paid on input services is eligible as credit. However, as the interest income of banks are exempt from service tax, there is an option of availing 50 percent Cenvat credit of service tax paid on input services. It is under Cenvat credit rules 2004. The excise duties or import duties paid on capital goods are allowed to the extent of 100 percent. Section 17 (4) of CGST law also allows 50 percent credit benefit on input services. However, the law requires 50 percent credit ailment even on capital goods which would be disadvantageous for banks as earlier they were eligible for 100 percent credit. However, there would be increase in credit as banks would get credit of tax paid on purchase of all inputs including Security Stationeries, Debit/ Credit cards, Printed materials and huge amount of business assets like Computer equipment which hitherto was not eligible. Tax paid on all stationery items such as Bill books, Cheques and Challans etc. would be eligible for credit of 50 percent and 50 percent restriction is not applicable for inter unit billings. In other words, if there are inter branch billings, full credit of tax charged in invoice would be allowed if such branches have common Permanent Account Number (PAN).

Identified and Updating Customers Location - In case of banking services, the place of supply of services for levy of GST would be location of service receiver on records of bank. Not updating the locations of customers especially business customers could result in payment of wrong type of tax and denial of credit to customers. For example, for a customer who is in other state, if local CGST and SGST are charged, the customer would not be able to claim credit. It is results in refund scenario and all of us know that getting refund from government department would not be easy. There is a need to update customer profiles to ensure that correct type of taxes are charged with proper registration number of customer. Where the customer is located outside India, the place of supply would be the location of bank and accordingly local SGST & CGST needs to be discharged on such transactions.

Tax payable on Inter Branch Billings (IBB)- In case of inter branch billings wherein branches have separate registration numbers, GST would be payable on any supply of goods or services. At each branch level, such transactions to be tracked for payment of GST. Identification of individual support services rendered among interstate branches it is practically impossible for any banking company. The representations have been made to the Government to exclude the inter unit transactions from the GST net for the banking and financial institutions which is uncertain till date. However, the value which is charged by one branch to another in different states would be deemed to be the open market value for the purpose of valuation. It comes as a major relief to the banking industry as valuation method adopted in case of inters branch billings would not be subject to litigation. Still the reasonable mechanism to arrive at the value of inter branch services would have to be identified for better compliance. The valuation mechanism should be configured in systems as all the banking processes are automated. Till today self-service or self-supply of goods was not subject to tax. Banks need to prepare well for implementing these changes for better compliance under GST.

GST on E-Banking - Banking transactions that have an associated services charge – Credit/Debit cards, NEFT/RTGS transfers, ATM transactions, processing fees on loans etc. – would go up from the current 15 percent to 18 percent post GST. E-Payment (Internet Banking, Credit Card, Debit Card); Real Time Gross Settlement (RTGS)/ National Electronic Fund Transfer (NEFT); Over the Counter Payment in branches of Banks Authorized to accept deposit of GST.

Usage of Cheque books also has been expensive - If any customer uses more than 50 cheques a year, he will have to pay the service tax, there are certain banks which would provide cheque books twice a year each containing 25 cheques free of cost. After that, the customer would have to pay Rs 75 for each cheque book. However there are few banks in the government sector which would also charge different rates for cheque books. If anyone has a saving account and he gets issues cheque book containing 10 pages then he has to pay Rs 30, one containing 25 pages, he has to shell out Rs 75 and for the book with 50 pages, he has to pay Rs 150. And this does not end here. Apart from this he has to pay service tax separately. Tax consultant Ajay Jagga said, "All bank related services are going to expensive under the new tax regime." Under the current regime, banks are charging Rs 15 for three months for sending alerts on mobile. But now customer would have to pay Rs 18 for the alert service.

As regards *ATM* - the customer would have to pay extra. Customers

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have to pay Rs 3 more for every Rs 100 paid for banking transactions. Also other services like Demand draft, Loan related processes, RTGS, Safe Deposit Customer Charges (SDCC), NEFT and Others are going to be 3 percent higher. Jagga added, "Though the banking services would cost more, but at the end it's the consumer who would avail of maximum benefit under GST. The whole service sector is going to be expensive. But as far goods sector is concerned the customer will benefit." Tax consultant BS Makar also anticipates banking services would be costlier. "The banking services would costlier. It could leave hole in pockets of customers. However its impact on customers could not be ascertained."

Immediate Payment Service (IMPS) - is an instant interbank electronic fund transfer service through mobile phones. It is also being extended through other channels such as ATM, Internet Banking, etc. For IMPS, the charge will be Rs. 5 along with GST for fund transfer in the range of Rs. 1,000 to Rs. 1 lakh. The charge will go up to Rs. 15 for transactions of Rs. 1-2 lakh.

GST on Loans - The impact of GST on Loan will be nominal. The view is that there would be a marginal rise in cost at points where the GST comes into play, for example say a personal loan and service tax in the earlier tax regime was levied upon the processing fee and prepayment charges, these are expected to rise but not to levels that would cause worry. For example, processing fee, depending on the lender was charged at 1-2 percent of the loan and this fee would attract a service tax of 15 percent, now it would rise to 18 percent. A marginal increase in the cost of borrowing is also applicable for Home loans, Vehicle loans and Personal loans.

GST on Mutual funds - The impact of GST on mutual funds will be minimal. The levy of GST will be on the Total Expense Ratio (TER) which is the measure of cost incurred by a mutual fund house to operate its mutual funds. The TER rate is expected to rise by 3 percent. GST impact on returns of mutual funds will definitely affect the consumers. Expense ratio is the cost incur by an investment

a. Policyholders have to pay higher premiums on their insurance. Assuming, a family spends a total of Rs 50,000 p.a. on insurance excluding service tax, their expenses will increase by 3 percent, i.e., Rs 1500.
b. Mutual fund distributors earning up to Rs 20 lakh will remain exempted from GST.

GST on Insurance – Every Insurance holders are be prepared to pay a little extra on your Insurance premiums. Insurance companies charge a service tax on term and health insurance products, delay in payment of insurance premiums and these charges are predicted to go up from 15 to 18 percent. However, a few of Insurance schemes such as the Aam Admi Bima Yojana and Pradhan Mantri Jeevan Jyothi Bima Yojana are exempted and look at the changes that banks themselves must undergo as part of the GST roll-out.

GST on Financial Services - GST might result into increasing the cost of the banking and financial services. A service tax of 15 percent is levied on financial services at present. With the assumed GST tax rate of 18 to 20 percent, it can be said that services are going to get expensive. A lot many compliance issues might also arise with the application of GST. The banking sector recommends that GST must not cover financial and banking services. It can be said that levy of GST on these services will be too challenging. Hence, GST will arise as transformative step, changing the whole indirect taxation system of India.

Challenges:
In India, banking sector is one of the largest service sectors. Implementation of GST is challenging specifically for this sector due to the higher rates as compared to the current service tax rate mechanism.

State wise Registration Requirement - Currently, all banks have centralized registrations under the Service Tax laws for all its branches. Branches of banks in multiple states & Union Territories (UT) will now require separate registrations under GST. Under GST, all records have to be maintained for each state separately. This will be cumbersome and challenging at the same time. In case a bank has multiple branches in one State, only one registration is required for all the branches in that State. Therefore, government should provide some special scheme to the banking sector to reduce the burden of banking sector largely differs from that of other industries.

Place of Supply can be important - GST is a place of supply based tax regime. Bank branches usually conduct transactions, both within and outside states therefore determining the place of supply will not be easy. The place of supply of the bank, they need to decide whether the payment is against CGST, SGST and IGST based on the type of transaction (intra-state or inter-state). For example, inter-state supplies of goods or services (or both) between two branches of the same bank, located in two States, will also attract IGST. Keeping in view the large number of transactions in the banking sector, taxpayers need not mention the serial number in their invoices and the address of the customer.

Taxability of Interest - In the current tax regime, interest is not taxed. Also, governments across the world do not impose GST on interest. If interest is not expected to attract GST, it will have implications on Input Tax Credit claimed by banks.

Paying GST at applicable rate - Now-a-days, banks also deal in commodities like gold/silver on which a concessional GST rate is expected to be applicable. Therefore, banks need to be careful in paying GST with the appropriate applicable rate on different products.

Summary and Conclusion:
Banks have always been a huge pillar of the Indian economy and taxpayers are literally banking on them for financial needs. In India, most of the banking and financial services are exposed to service tax, at the rate of 15 percent. Under the new tax regime, GST rate for financial services transactions, such as banking, mutual funds, insurance and stock broking has been increased to 18 from 15 percent earlier. Thus, financial services transactions to become marginally costlier.

GST applies to all services wherein there is a supply of services for consideration. So, in banking transactions such as credit card payments, fund transfer, ATM transactions, processing fees on loans etc., where the banks are levying charges, increased tax rates would apply. This would have a slight inflationary impact. Also, Interest on loans, trading in securities, foreign currency and retail services will also fall within the ambit of GST. Thus, it appears that imposing GST on banking and financial services will make the financial services costly. However, interest on fixed deposits, bank account deposits etc. which do not attract a charge will remain so even under the new regime. Since GST is a destination-based tax, it might be a challenge to determine the destination of certain services (at present, services are taxed at the place of rendering the service). It may lead to a difficulty in determining state GST, central GST or inter-state GST on B2B and B2C transactions.

The present study concludes that the cost of financial transactions will be slightly higher for the end customers. Banks will have higher compliance cost due to registration of bank branches and inter branch services. Mutual funds are not largely affected by GST and hence the returns to consumers will not vary drastically. The Goods and Services Tax is a necessary change that is expected to take India to a simpler and advantageous tax structure which will augment growth, but no implementation is without difficulty. The slight increase in costs in the financial sector should be taken as a bitter pill for a better future. The issues discussed above are only illustrative. Banks would for sure face lot of challenges for transition to GST from present indirect taxation system. Professionals have a major role to play in assisting the banking sector for implementation of GST for smoother transition. Chartered accountants with knowledge of IT are more suited for this job. Implementation of GST will create a fuss for banking sector. Consumer will be charged 3 percent more under GST. There is a lot of confusion about how banking sector should charge their customers. Intra-state and inter-state transactions will also become a cumbersome task for the bank. Hence, GST is the best financial practices throughout India which is desired by our prime minister and ultimately every citizen of India.

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