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IMPACT OF GST ON BANKING SECTOR

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Abstract—*The introduction of GST in India is a substantial shift from the current tax regime. It is expected that service sectors will have major impact of GST than the manufacturing or trading sector. Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services are facing new challenges in current scenario. Owing to the nature and volume of operations provided by banks and NBFC such as lease transactions, hire purchase, related to actionable claims, fund and non-fund-based services etc., GST compliance is difficult to implement in these sectors. This study enables to understand the impact of GST on banking sectors by detailing the issues and benefits of GST.*

Keywords—*Banking Sectors, Economic Development, GST, Insurance Services, NBFC.*

INTRODUCTION

Banking plays an important role in the financial life of a business, and the importance of banks can be seen from the fact that they are considered as to be the life-blood of modern economy. Although no wealth is created by Bank, but their essential activities facilitates the process of production, exchange and distribution of wealth. In this way they become the effective partners in the process of economic development and growth. Any changes in operations and procedures in this sector will bring corresponding changes in the development of business and industries which are more dependent on financial and non-financial services provided by banking sectors.

CHANGES THAT HAVE TO BE MADE UNDER GST

Registration:

As per GST Law, banks having branches in multiple States and Union Territories (UTs) are required to register in each such State and UT.

Currently, banks follow the Zonal or Regional structure where for one large State, there may be more than one Zone and conversely, one Zone may comprise more than one State.

Accounts and Administration:

- As GST stands today, transactions between two branches of same bank is set to trigger a tax, which could prove to be cumbersome.
- GST requires restructuring of accounting, administration and control mechanism in the IT systems and processes of banks to be able to maintain financial records of each State separately.
- GST being levied on branch transactions could be cumbersome because of the enormous number of financial transactions being carried out.

Services by Bank:

- Some services by bank to a customer are centralized (Ex: Demat Account, Wealth Management services, bigger home loans etc.) while some others are localized to branches (Ex: Savings account, Personal loan, OD etc.).
- Banks provide different types of services to customers like Debit Card, Credit Card, Internet banking, Cheque Clearance, NEFT, RTGS, IMPS, Funds Transfer, Demand Draft, Demat Account, Wealth Management services, home loans, Savings account, Personal loan, etc.

- Bank Head office also provides services to branches which may become taxable under GST. The IT systems of banks need to be upgraded to meet all these requirements related to multiple registrations, determining point of supply of services, compliance needs and Input Service distribution.
- Currently, the power to levy and collect Service Tax on all services is with the Centre. With the introduction of GST, the States would also be empowered to levy GST on services.
- Accordingly, on the same activity, there would be two levies, namely Central GST (CGST) and State GST (SGST), levied and administered by the Central Government and State Governments respectively. For interstate supply of
- Several activities of banks are currently exempt from service tax (Ex: Fund based activities like interest payable on deposits / savings bank accounts and loans disbursed) which would incur GST unless otherwise exclusively exempted.
- It will be impossible for banks and finance institutions to value services provided by one branch to another and then pay GST on that.

ISSUES AND IMPACT PERTAINING TO THE PROVISIONS OF GST LAW:

1. Widespread number of branches; registration a hassle

Currently, a NBFC, Banks with pan-India operations can discharge its service tax compliances through a single ‘centralized’ registration. However, under GST, such Banks/ NBFCs would need to obtain a separate registration for each state where they operate.

In addition to registration, compliance burden about filing of returns has also increased substantially -in terms of the periodicity of returns, number of return formats and level of details required in these returns.

2. Input Tax Credit leveraged and de-leveraged

Currently, Banks and NBFCs majorly opt for the option of reversal of 50% of the CENVAT credit availed against inputs and input services whereas CENVAT credit on *capital goods* could be availed with no reversal conditions.

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.

3. Assessment and Adjudication made bothersome

The assessment would be done by the respective state regulators under which the respective branch is registered. Now, every registered branch of banks and NBFCs must justify its position on chargeability in the respective state and reason for utilizing input tax credit in different states.

As under GST, more than one adjudicating authority will be involved, each authority may hold a different opinion on the same underlying issue. This contradiction in opinion will prolong the adjudication process. Currently, a taxpayer is adjudged by a single adjudicating authority on an issue involved. Under GST different adjudicating authority may take a different view on the same issue. Clearing up and dealing with the difference of opinion provided by the different adjudicating authority would be difficult.

4. Account Linked Financial Services

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.

5. Non-Account Linked Financial Services

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.

6. Actionable Claims

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 from bills discounted to securitization will now be taxed as an effect B2C and B2B majorly.

7. Place of Supply of Goods and Services

As per section 6(13), in the case of banking and other financial services (BOFS), the place of supply shall be the 'location of the recipient of service' on the records of supplier of services.

Example- Let a person X applied for a personal loan to PQR Bank.
PQR bank did the following activities:

1. Initial verification is done by outsourced local agencies,
2. Loan processing is done centrally,
3. Disbursement done locally,
4. Repayment done by net banking/ECS mandate.

Under such circumstance determining point of supply at each stage is very cumbersome. In order to determine the GST, it would be necessary to determine the place of receipt of supply of service and place of supply of service. It is possible that actual recipient of such services may be different offices/ plants of the customer situated in different States and therefore, there could be a doubt as to whether each time, the bank would be required to capture the location of the recipient of service for each transaction.

8. Invoicing

Section 25 of the GST Law requires uploading of invoices on Goods and Services Tax Network (GSTN).It means wherever the recipient of service wants to avail input tax credit, each and every document, where under certain fee or commission or charges have been charged and on which GST is levied, is required to be uploaded electronically on the GSTN by the service provider. It is a fact that banks do not issue commercial invoices for every service rendered. It would practically be a very difficult task to issue invoices for such small amounts and uploading them on GSTN.

DIFFICULTIES TO BANKING INDUSTRY

- All the bank need to register for their all office location.
- They have to maintain separate books of account to have a control for all input tax credit and utilized and unutilized credit.
- 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.
- Complying with the requirements of reverse charge and partial reverse charge mechanism would add to further compliance costs.

BENEFITS TO BANKING INDUSTRY

- Bank will be able to set off their GST liabilities against credit received on purchase of goods.
- Under the existing CENVAT mechanism, banks are eligible to take partial credit of excise duty and service tax paid on procurement of qualifying goods and services which are used for provision of output service.
- 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.
- 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.

CONCLUSION

Banking sectors face a can of worms in terms of the manner of transacting business, customer profiles, services matrix, IT systems and operation to capture the data at both front and back end. IT systems will need to be more vigilant in terms of serving the purpose of solving the complexity related to GST compliance and procedures at a higher volume. The impact of GST on Banks and NBFCs will be such that operations, transactions, accounting and compliance will need to be reconsidered in its entirety.

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