Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, General Impact Factor : 2.5442, Volume 08, No. 02, April, 2018, pp. 215-218

IMPACT OF GOODS AND SERVICES TAX ON BANKING SECTOR

Dr. Ranjula Jain*
Shweta Bansal**

ABSTRACT

GST is one of the most crucial tax reforms which were to be implemented from April 2010, but it came in force from July 2017due to differing interests and political issues. This idea of GST was firstly introduced by Vajpayee government in 2000. More than 150 countries have implemented GST so far. GST is a detailed inter- disciplinary tax system that has seamlessly unified the economy into a single national market. This tax includes all indirect taxes which were previously implemented by states and central government like VAT, Service tax, etc. It is expected that it will remove the cascading effect of tax and will contribute in the substantial development and growth of country.

KEYWORDS: *GST, Substantial Development, Indirect Tax, Crucial Tax Reforms, VAT, Service Tax.*

Introduction

In India, introduction of GST is a revolutionary change since 1947. GST was introduced as The Constitution (one hundred and first amendment) Act 2017 following the passage of constitution 122nd Amendment Act Bill was introduced in the Lok Sabha by Finance Minister Arun Jaitley on 19th December 2014. GST was first introduced by France in 1954 and now it is followed by 140 countries. As the name suggests this tax will be levied on all goods and services at each stage of value addition. The GST has replaced several former taxes which were levied by central and state government like: service tax, value added tax, central excise duty, surcharge, octroi, etc. GST is expected to be a critical reform in spurring growth in the economy. Experts say that GST has given an improved way of tax collection which will help in removing all the tax barriers between states and bring country under an umbrella of single tax rate. The emergence of GST has separated India from other emerging markets as it will ensure long-term growth in Indian economy .The introduction of GST is making India one market, making business processes more efficient. GST was implemented with the Moto "One Nation, One Tax ".Most of the countries followed unified GST

While a dual GST system (i.e. where tax is imposed by central and states both) is followed by some countries like Brazil, Canada. In India also dual system of GST is followed including Central goods and services tax (CGST) and State goods and services tax (SGST). To consider and examine the interstate transactions of goods and services Integrated goods and services tax (IGST) is introduced. Under GST, goods and services are taxed at the point of supply at following rates: 0%, 5%, 12%, 18% and 28%.For rough precious and semi precious there is a special rate of 0.25% and 3% for gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. There are certain goods like petroleum products and alcohol which are not in the ambit of GST. There are certain activities or services which are classified as "neither good nor services" under schedule 3rd of the GST:

- Servicer by an employee to the employer in relation to his employment
- Court/tribunal services including district court, high court and supreme court

---

* Assistant Professor, Department of ABST, Kanoria PG Mahila Mahavidyalaya, Jaipur, Rajasthan, India.
** Student, M.Com., Department of ABST, Kanoria PG Mahila Mahavidyalaya, Jaipur, Rajasthan, India.

- Duties performed by Members of Parliament, Panchayats, State legislature, Municipalities And other local authorities, chairperson/member/director in a body established by the govt. or a local body and who is an employee of same
- Services of a funeral, burial, crematorium or mortuary including transportation of the decreased
- Sale of land and sale by building
- Actionable claims (other than lottery, betting and gambling)

There are some common objectives/benefits which are aimed by GST are:

- Increase in the tax base for strict adherence
- Cutting extra tax slabs for avoiding classification complexity
- To Put all the states in equal proportions
- Making easy process of tax administration and compliance
- Making value chain more strong to make availability of input credit
- Better control on leakage

Despite of the benefits of GST there are still challenges in front of the implementation of GST. These are:

- It is very hard to assume what will be the exact impact of GST in coming future.
- Mistakenly double registration could increase compliance and cost
- Lack of knowledge or awareness among common people
- Resistance to change
- Shortage of required skilled staff
- Adding No proper channel gates for controlling the tax evading parties

Under GST Tax paid on input is deducted from the tax payable on the output produced. This input credit sets off operations through the manufacturing and distribution stage of production.

Impact on Banking Sector

Banking sector is one of the most important sector in India. Banks have always been a huge pillar of the Indian economy. In formation of Monetary policy of any country Banks play a very crucial role. It contribution to GDP is around 7.7%. 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. For the financial services sector GST has lead to vital transformation on financial products, information technology system, a shift from centralized to state compliance. The services provided by head office to the branches are also covered under GST. It is also said that GST Council have taken bank branches all in separate entities making extra compliance cost for each operating unit. Banking institutions are in a problematic situation as the GST is setting the inter branch operations into the GST ambit. As the GST is applicable on point of origin of service, in banking sector it is very complicated to know the origin because bank is located at one place and customer making the transactions is at other place. Where the locations discharging GST liability are different from the input received, the accumulated input credit can be utilized through ISD (Input Service Distribution). To provide services to customers, banks deal with various vendors; the reversal of ITC for services availed from dealer who does not discharge his liability increases the cost and requires additional efforts in tracking status of dealer. Banks and financial services companies will face challenges under the GST because of changes to the place of supply rules under the GST. Some services are given to customers centrally while some others are provided locally. This complexity increases the compliance cost due to multiple assessment and audits. Section 10 of the Model GST Law creates distinct taxable persons for each registration in each state; these institutions will file more tax returns under this rule because branches in each state will need to file GST returns as opposed to a consolidation at the national level. After GST, Branches in each state has to file GST Returns rather than a combination at the national level. This newly incorporated scheme has increased the process compliance anyhow. The GST has made a higher turn towards the financial services of India as the previously followed 15 percent service tax is now converted into 18 percent GST. All the services like ATM withdrawing (beyond the free withdrawal limit), Bank account maintenance charges, loan processing charges everything has been hiked up to 3 percent from earlier rates. This would have a slight inflationary impact. Also, interest on loans, trading in securities, foreign currency and retail services are also under the ambit of GST. Implementation of GST has made banking and financial services costly.

Charges on Personal Loan	GST Rate	Pre GST Rate
Processing Fee	0.50%-1.00% of the loan amount+18% GST	0.50%-1.00% of the loan amount + 15% Service Tax and surcharge
Prepayment Charges	2%-5% p.a. principal outstanding amount + 18% GST	2%-5% per annum of Principal outstanding + 15% Service tax

Source: www.icicibank.com, Personal FN Research

This table clearly shows that earlier with basic processing fee 15 percent service tax was applicable but after GST this tax was increased by 3 percent resulting to 18percent GST. So for example, if a loan amount of Rs. 10,00,000 attracts a processing fee of in the range of 10000-20000 , the service tax equates to Rs. 1500-3000. But under GST, your cost will go upto Rs. 1800-3600; a sum total of around Rs.11800-23600 (processing fee+18% GST).As the IGST is distributed between Central as CGST and state as SGST, although the classification of transactions is done and rates have been decided, there is still the matter of quickly and correctly completing several GST returns for a single institution. By the introduction of GST banks are now able to set-off GST liabilities against credit received on purchase of goods.

Difficulties faced by Banking Industry

- Registration for all office locations i.e. all the branches.
- Maintenance of separate books of accounts to have control on ITC.
- Increased compliance cost with requirements of reverse charge.
- Multiplicity of registrations for different branches creates trouble in paying the taxes.
- Determination of place of supply has become critical.
- Under current tax regime (servive tax) “interest” was not covered under service tax legislations but under GST

Benefits to Banking Industry

- Easy set off of GST liability against credit received on purchases
- Earlier banks were not able to get ITC of goods purchased from state but as now all the taxes has been subsumed under GST Banks are now able to get GST credit on procurement.
- GST has helped in reducing tax evasion.
- GST has simplified doing business thus creating additional demand for funds which will ultimately lead to increasing bank transactions and digital transactions.
- Under CENVAT rules ITC was not allowed for making any outward supply in the course of business but under GST regime input tax credit is allowed for the same.

Impact on Others

The GST is affecting each and every sector including real estate, e-commerce, hospitality, smart phones, banking, automobiles, transportation, FMCG, etc. Under the new tax structure because of input tax credit benefit, builders are able to get ITC on the key raw materials they buy. As against the earlier tax rate of 5.5% a net effective tax rate of 12% is attracted by the under-construction properties. Before implementation of GST mobile phones were taxed at the rate of 8-18% in different states and are now taxed at 12%. An additional 10% basic custom duty has been levied on imports of mobile phones to give protection to local producers. With the passage of time GST rates are continuously changing. Recently, rates for many items were reduced or changed. List of those items are:

- Goods on which GST has been reduced from 28 to 18 percent:
  - Buses (for use in public transport) which exclusively run on bio-fuels.
  - Old and used motor vehicles (medium and large cars and SUVs)
- Goods on which GST has been reduced from 28 to 12 percent:-
  - All types of old and used motors vehicles (other than medium and large cars and SUVs)
- List of goods on which GST reduced from 18 to 12 percent:
  - Sugar boiled confectionary
  - Fertilizer grade phosphoric acid

- Bio-diesel
- 12 types of Bio-pesticides
- Bamboo wood building joinery
- Mechanical sprayer
- Drip irrigation system including laterals, sprinklers

- List of goods on which GST reduced from 18 to 5 percent:-
  - Tamarind Kernel Powder
  - Mehendi paste cones
  - LPG supplied for supply to household domestic consumers by private LPG distributors
  - Scientific and technical instruments, apparatus, equipment, accessories, parts, components, spares, tools, mock ups and modules, raw material and consumables
- Goods on which GST has been reduced from 12 to 5 percent:-
  - Articles of straw, of esparto or of other plaiting materials;
  - Basket ware and wickerwork velvet fabric (with no refund of un-utilized input tax credit)
- Goods in which GST has been reduced from 3 per cent to 0.25 per cent:
  - Diamond and precious stones
- Goods that got expensive (items changes into higher rates)
- Goods in which GST has increased from 12 per cent to 18 per cent
  - Cigarette filter rods
- Goods in which GST has increased from nil to 5 per cent
  - Rice Bran (other than de-oiled rice bran)

Conclusion

With the introduction of GST there has been an increase in the cost of compliance for all the banks to register all their branches under each state. Now each of these branches will now have to file and pay their taxes independently, unlike earlier where it was all accumulated at and submitted by the Head Branch Office. Almost all the transactions charges have gone up because earlier it was 15% service tax but now it is 18% after GST. At the time of implementation of GST the biggest doubt was its success or failure. But with some negative and some positive effects GST has proved to be a long- run beneficial programme in India , which can be seen by amount of tax collection increasing day by day and at the same time number of registered tax payers is also increasing.

References

- https://www.equitymaster.com/outsideview/detail.asp?date=07/11/2017&story=3&title=The-2 Impact-of-GST-On-Banking-transactions-Insurance-and-Investments-PersonalFN
- https://www.encomply.com/view_news_room?entryId=7b94a8f0e87011e6b535b203d8925cba
- https://taxguru.in/goods-and-service-tax/impact-gst-banking-sector.html
- https://blog.saginfotech.com/gst-impact-on-banking-sector-in-india
- file:///D:/UGC%20net/GST%20Council%20Meeting_%20New%20GST%20Rates%20On%20Items%20You%20Should%20Know%20About.html

♦❒♦