

GST AND ITS IMPACT ON BANKING SECTOR

Anamika Kumari*

ABSTRACT

Goods and service tax was introduced by France in 1954 and now adopted by 140 countries. In late 1990's, it was also adopted by India. In 1999, finance minister of West Bengal Shri Asim Das Gupta designed a model for goods and services tax. Many years discussions and disagreements had happened between the ruling and non ruling parties and then finally launched at midnight on 30 June 2017 by Prime Minister of India Shri Narendra Modi. "**One Nation One Tax**" system was started in our country which abolish all other taxes such as excise duty, entertainment tax, advertisement tax, commercial tax, service tax and so on. India had adopted dual model that is administrated by both State and Central Governments. Transactions made within a state will be levied with Central GST (CGST) and State GST (SGST).

Indian banking sector is sufficient capitalized and well regulated before the application of GST in India. It is important to say that the financial and economic position of our country are far superior to any other countries as banking are 18 public sector banks, 22 private sector, 46 foreign banks, 53 regional cooperative banks, 1542 urban cooperative banks and 94384 rural cooperative banks as of September 2019. Nowadays, goods and service is applicable almost all the sector like industrial sector, agriculture sector, banking sector and so on. This paper investigate the impact of goods and service on banking sector as the tax rate has created an impression in the banking sector is contributing much towards the economic growth of the country. Now the tax regime made abolish of centralized registration of the banks. The tax rate has created an impression in the banking sector.

KEYWORDS: GST, Banking Sector, Goods and Service, Economic Growth, New Tax Regime.

Introduction

Goods and service tax is playing a vital role in all sectors of the economy and the day to day life of the people. Goods and service tax was introduced by France in 1954 and now adopted by 140 countries, in late 1990's it was also adopted by India. In 1999, finance minister of West Bengal Shri Asim Das Gupta designed a model for goods and services tax. Many years discussions and disagreements had happened between the ruling and non ruling parties and then finally launched at midnight on 30 June 2017 by Prime Minister of India Shri Narendra Modi. "**One Nation One Tax**" system was started in our country which abolish all other taxes such as excise duty, entertainment tax, advertisement tax, commercial tax, service tax and so on. India had adopted dual model that is administrated by both State and Central Governments. Transactions made within a state will be levied with Central GST (CGST) and State GST (SGST). The main purpose was to avoid double taxation on goods and services. (Vasanthagopal, R.).

GST made a large change in the entire tax system of the country which is affected on 1121 items. It is replacement of various taxes as one tax system (Ranjan, R.). This council has fitted over 1300 goods and 500 services fewer than four tax slabs of 5%, 12%, 18% and 28% under goods and service tax. This is aside the tax on gold that is kept at 3% and rough precious and semi precious stones that are placed at special rate of 0.25% under GST (Kotak, U.). On the basis of above items GST rate 18% applied on the banking sector in India. New regime made an incredible step to abolish of centralization

* Research Scholar, University Department of Applied Economics & Commerce, Magadh University, Bodh-Gaya, Bihar, India.

registration of the banks. Now all the bank branches have to register under new regime in each state for smooth functioning. The tax rate has created an impression in the banking sector that the sector is contributing much toward the economic growth of the country.

Review of Literature

- **According to Prof. Ethisham Ahmed and Satya Poddar (2009)** in their study on “Goods and Service Tax Reforms and Inter government Consideration in India” found that GST introduced will provide simpler and transparent tax system with increase in output and productivity of economy in India. The benefits of GST are critically dependent on rational design of GST.
- **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 it will lead to its acceptance by more than 130 countries in the world and a new preferred form of indirect tax system in Asia also.
- **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 it then its rate should be less than 10% for growth.
- **According to Nitin Kumar (2014)** in his study on “Goods and Service Tax – A Way Forward” he concluded that implementation of GST in India removed the distortion by current indirect tax system and encourage unbiased tax structure which is indifferent to geographical locations.
- **According to Monika, Sherawat and Upasana Dhanda (2015)** in their study on “Goods and Services Tax in India: A Key Tax Reform”, concluded that there are various challenges in way of goods and service tax implication 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.

Before GST

Indian banking sector is sufficient capitalized and well regulated before the application of GST in India. It is important to say that the financial and economic position of our country are far superior to any other countries as banking in public sector are 18 public sector banks, 22 private sector, 46 foreign banks, 53 regional cooperative banks, 1542 urban cooperative banks and 94384 rural cooperative banks as of September 2019. (www.bef.org).

- All services provided by banks, except those listed out in the negative list defined in the section 66D of the Finance Act, 1994 as defined in the Finance Act, 2012 were taxable before the Goods and Services Act was in place. (Gupta, S.).
- Interest payable on deposit, loans or advances and interest on delayed payment fall outside the ambit of service tax and no tax is payable on such services.
- Service tax is not applicable under foreign exchange transactions done between banks or banks and authorized dealer. Any foreign exchange transaction done between bank and final consumer comes under the ambit of service tax. (Gupta, S.).

Objective of the Study

- To understand the concept of goods and service tax on banking sector.
- Study of GST on other financial services.
- Comparatively study of previous and present goods and service.

Research Methodology

All the data in this paper is collected through secondary sources and also various websites and e- journals.

Impact of GST on Banking Sector

Nowadays goods and service is applicable almost all the sector like industrial sector, agriculture sector, banking sector and so on. This paper investigate the impact of goods and service on banking sector as the tax rate has created an impression in the banking sector is contributing much towards the economic growth of the country. Now the tax regime made abolish of centralized registration of the banks. The tax rate has created an impression in the banking sector.

- All the branches of a bank in all should be separately too registered in state and union territory.
- The financial records of each state should be maintained separately.
- Goods and services will be taxed at the place where they are consumed.
- Financial services are charged 18%. These services include loan processing fee, debit cards, collection of bills, cash handling charges, collection of outstation cheques etc. (Gupta, S.).
- 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 mechanical would add to further compliance costs.
- The service tax is raised to 18% from 15% which is ultimately affecting the banking services such as issue of cheque books and demand drafts which will be more expensive for retail customers. (Kumar, N.).

From the above mentioned, the banking sector shows that there is negative and positive impact after implementation of goods and service tax. It will help to reduce tax evasion. And help to do business can be done easily. The banking services that have witnessed increased charges or processing fees with GST are given below:

ATM Charges

The financial transactions at SBI's on ATMs, financial transactions will be charged at RS. 10 plus GST and non financial transactions will be charged Rs.5 plus GST. If the transaction is declined due to insufficient balance irrespective of whether card was wiped at SBI ATM or other bank, then it will be charged RS.20 plus GST (m.economictimes.com)

Online Transactions

Users will now have to pay 18% GST taxation rate on their bank transaction fees.

Table 1: SBI Bank

Amount	Internet Banking Charges	Transaction Charges at Bank Branch
Up to Rs.10,000	Re.1 plus GST	Rs.2.50 plus GST
Above Rs. 10,000 and up to RS.1,00,000	Rs.2 plus GST	Rs. 5 plus GST
Above Rs.1,00,000 to 2,00,000	Rs.3 plus GST	Rs. 15 plus GST
More than Rs.2,00,000	Rs. 5 plus GST	Rs.25 plus GST

Source: Compiled by author

Table 2: ICICI Bank

Amount	Transaction charges at bank branch
Up to Rs. 10,000	Rs.2.50 plus GST
Above Rs.10,000 and up to Rs.1,00,000	Rs.5 plus GST
Above Rs.1,00,000 to 2,00,000	Rs.15 plus GST
More than Rs.2,00,000	Rs.25 plus GST

Source: complied by author(Motiani, P.)

Processing Fees on Loans

After implementation of goods and service tax, there is 3% more tax on the processing fee and it become now 18%.

- **Personal Loan:** It increased from 15% to 18%. 3% increment had seen after implementation of GST.
- **Home Loan:** It also increased from 15% to 18%.
- **Vehicles Loan:** There are various types of vehicles and it depends.
 - A GST rate of 12% is applicable on following vehicles:
 - Tractors except for road tractors.
 - Trailers which are used for agriculture purposes. (cropbiz.io).
 - A GST rate of 18% is applicable on following vehicles:
 - Buses which uses bio-fuel for public transportation purpose.
 - Refrigerated motor vehicle

- Select purpose vehicles (cranes lorries, concrete mixer lorries).
- Parts of the tractor like gearbox assembly. (cropbiz.io).
- A GST rate of 28% is applicable on the following vehicles.
 - Road tractors used for semi trailers with engine capacity exceeding over 1800cc
 - Motor vehicles used for transport of goods.((cropbiz.io).

Table 3: Cheque Book Charges

Descriptive of Services	Charges
Current Account	First 50 cheques leaves free in the financial year.
	Thereafter, Rs.3 + GST per cheque leaf.
	25 leaf cheque book at Rs.75 +GST.
	%0 leaf cheque book at Rs. 150 + GST.
Saving Account	First 10 cheques leaves free in a financial year.
	Thereafter, 10 leaf cheque book at Rs.40 + GST.
	25 leaf cheque book at Rs.75 + GST.
Emergency cheque book	Rs.50 + GST for 10 cheque leaves or part thereof.
Senior citizen	Free
Salary package Accounts- Irrespective of QAB	Free (expert for bulk requirement).

Source: compiled by author

Table 4: Locker Rent

Size	Type	Charges
A	Small	Urban and metro: Rs.1500 + GST;
B	Small	Rural and semi-urban: Rs. 1000 + GST.
Size	Type	Charges
C	Medium	Urban and metro: Rs.3000 + GST;
D	Medium	Rural and semi-urban: Rs.2000 +GST.
E	Medium	
H1	Medium	
F	Large	Urban and metro: Rs.6000 + GST;
G	Large	Rural and semi-urban: Rs.5000+ GST.
H	Large	
L	Extra Large	Urban and metro: Rs.9000 + GST;
L1	Extra Large	Rural and semi-urban: Rs.7000 + GST.

Source: compiled by author

Benefits to Banking Sector

- Banks will be able to set off their goods and service tax liabilities against credit received on purchase of goods.
- Elimination of interstate taxes will decrease paper work and procedural compliance to a great extent.
- Creation of single market under one tax procedure will result in better and efficient outcomes.
- Tax evasion will be difficult. The ease of doing business is given a push through GST. The increase in demand for fund required for business with help banks grow. (Gupta, S.).
- Input Tax credit was not allowed under CENVAT (Central VAT) system. (Gupta, S.)
- Banks will be able to avail input tax credit on the procurement of goods which was not given by State Vat. (Gupta, S.).
- Goods and services used for provision of output services on which excise duty is paid can be partially reimbursed to the banks. (Mawuli, A.).

Conclusion

From the above information we concluded that goods and service tax regime is attempt to rationalize indirect tax structure. It is a slogan of government of India “**One Nation One Tax**” system which was started in our country which abolishes all other taxes such as excise duty, entertainment tax, advertisement tax, commercial tax, service tax and so on. India had adopted dual model that is administrated by both State and Central Governments. Transactions made within a state will be levied

with Central GST (CGST) and State GST (SGST). It has abolished the double taxation system and simplifies the indirect tax system to help in removing the inefficiencies created by prevailing heterogeneous tax system in the country. Its launch has created many problems for the banking sector as customers will be charged 3% more under GST. 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, SMS alert etc. Thus in banking sector it has made 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 roll out of it.

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