BANKING SECTOR IN INDIA - A MORE FOCUSE AREA AFTER GST

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***Abstract*: The introduction of goods and service tax is one of the most important tax regime in India. It is expected that financial sector will have major impact of GST than the other sectors. Among the services provided by the banks, insurance, and financial services such as fund based, fees based, insurance services facing new issue in current tax system. Banking sector get impacted significantly. Separate registration in each state, operational reconstruction, identifying inter-state transaction, reconciliation of state wise branches, filling of returns on monthly basis are some issues faced by the banking sector. The main aim of this study is to reduce the cascading effect of taxes imposed on goods and services in our economy. The purpose of this study is to establish benefits and issues faced by the banking sector and its effects on the customer after the implementation of GST.**

***Keywords*: Banking, Impact, cascading effect, GST.**

I. INTRODUCTION

Goods and service tax is the biggest indirect tax reform implemented on July 2019, replacing a multiple taxes in India and the previous system direct and indirect taxes levied on goods and services fell between 18% to 40% which have now been reconstructed between 5% to 28%. Currently GST is the only tax for the entire country. Under GST tax system good and services are imposed at the rates of 0%, 5%, 12%, 18%, 28%. There is a different rate of 0.25% on precious and semi-precious stones and also 3% of tax on gold. Other rates on top rate of 28% GST on a few items like tobacco products, luxury car, and aerated drinks. The tax system has created major impact on various sectors of the country both positively and negatively. Banking place a crucial role in Indian economy. Goods and service tax for financial sector would be a major transformation as it would have created more impact on the financial product and services, control mechanism in IT system and process and substantial shift from centralized compliance to the state wise compliance. In the banking sector it has made biggest change for all product and services have a high tax rate compared to the previous one i.e 15% to 18%. The influence of GST on financial sector was not that positive as most of the modifications were included in the law of this sector.

II. POSITIVE IMPACT OF GST

1.1 Eliminate cascading effect and barriers free tax structure

GST will eliminate cascading i.e tax on tax or compounding of tax impact on the manufacturing and distribution cost of goods and services. This decrease cost of goods and services and increase the growth of GDP. GST without barriers will leads to economics of scale in production industry and reduce the supply chain cost.

1.2 Increase in tax revenue

GST will improve the tax compliance higher tax; GDP ratio. The GDP is expected to raise by 2% as per FRBM report(FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT). The additional annual revenue to the central and state government will increase rupees 70000 to 80000 crores.

1.3 Lead to reduce chance of tax evasion

I. GST will charge on full tax on each and every transfer, it is difficult to avoid tax from the payment. E.g. e-commerce firms cannot avoid tax by operating business from the place where tax rate are comparatively less.

III. NEGATIVE IMPACT OF GST

1.1 Increase in compliance cost for multi-location goods and services

Multi-location services providers like banks, operators, telecom, insurance companies, airlines are staring at large compliance burden with the goods and services tax (GST). These service providers will need to take state- wise registration instead of centralized registration, monthly file return instead of six- monthly compliance.

1.2 Conflict between state and Centre tax authorities

Under current tax regime, state authorities will verify 90 percent of all assesses with turnover of Rs.15 million or less. The balance 10 percent will verify by Centre. For turnover above Rs.15 million, Centre and state will assess 50 percent each. Such a division of assessment will increase conflict between state and Centre.

1.3 Dual cost

There will be dual control system for every business by state and Centre government this will increase compliance cost go up.

IV. ISSUES AND IMPACT OF GST ON BANKING SECTOR

1.1 Widespread number of branches; registration a hassle

Under the service tax law, there is a concept of centralized registration for all branches exit in the country. As per the model GST law, banks having many branches in many states and union territories(UT), will be required to separate registration for each state and UT where they operate, so this will have substantially increase in compliance burden on the bank.

1.2 Accounts and Administration

As GST, stands, transaction between two branches of same banks, is the set to trigger a tax, wh

ich could prove to be cumbersome.GST would require, reconstructing of accounts and administration and information technology system, process of banks to be able to maintain financial records of each state separately.

1.3 Services by banks

*S*ervices provided by banks to the customer are centralized, such as Demat account, wealth management services, bigger home loan etc. while some other are localized to branches such as saving account, personal loan, overdraft etc.

Some services by banks to the customers like internet banking, debit card, credit card, Cheque clearance, NEFT, RTGS, IMPS, fund transfer, Demat account, Demand draft, personal loan, and home loan etc.Bank head office also provides several services to branches, which may become taxable under present tax system

Under service tax the power to levy and collect service tax on all services with the center. With the implementation of GST, the state would also be entitle to collect GST on services. It will difficult for the banks and financial institution to value services provided by one branches to another and then pay GST on that.

1.4 Account linked financial services

In the centralized and digitalized scenario prevailing in India identifying the location of service recipient will be quite difficult. In case where the services recipient like manufacturers, professionals, traders and other workers often shift from one place to other in search of better opportunities.

1.5 Determining place of supply of services could be critical

As per sec 6(13), banking and financial services, the place of supply shall be the "location of the recipient" of service on the records of the "supplier of services". For every transaction in GST, the financial institution will need to identify the place of consumption where GST will be paid, with bank branches conducting several transaction both inside and outside states. Identifying the place of supply will not be very easy. Bank will need to decide whether the payment is against CGST or SGST or IGST.

For example, A customer having an account in Mumbai may do the transaction from Chennai and can transfer money to person from Chennai having account on Kolkata. Here point of supply determining is very much required for taxation purpose under GST.

V. IMPACT ON CUSTOMERS OF THE BANK

Due to the introduction of GOODS AND SERVICES TAX, the tax rate on each and every product and services of the banks have become more costly and less economical to the customer.

Debit and credit card is one of the common product used by the customers nowadays, the rate of tax charged on these instruments is 18% which is expensive than the previous rate which was 15%.

Investment, like mutual fund are affected adversely due to implementation of GST. The goods and services tax will be on the total expense ratio (TER) of the mutual fund and has been increased 15% to 18%.

Banking facility such as locker facility, tax payment, billing, shopping etc. are largely used by the customers. It was charged at a rate of 15% to 18%.

1.1 Transaction charges

Transaction charges have been increased by 3% i.e 15% to 18%. Under GST, ATM transaction making multiple trip to withdrawals cash or check balance will be made costly. ATM transaction charges are restricted to a certain point i.e first five withdrawals are free after five withdrawals RS. 20 per withdrawal is charged.

Also the usage of check book will be more expensive. The customers have to pay RS. 3 more for every RS.100 paid for banking transaction.

VI. BENEFITS TO BANKING INDUSTRY

- The major benefit of GST on banking sector includes self- regulated tax, transparent tax system, and it efficiently reduced the number of indirect taxes in the country.
- Banks will be having the efficiency of setting off their liabilities of goods and services against the received on the purchase of goods and services.
- GST will be helpful in reducing the evasion of tax and complete business process will be more easier.
- There is no tax on deposits made by the customers. It is totally exempt from GST.

VII. REVIEW OF BANKING RATE IMPLIED ON THE PRODUCTS AND SERVICES UNDER GST

ITEMS	TAXABLE	NOT TAXABLE	TAX %
Deposits	-	NT	-
Credit card	T	-	18%
Debit card	TS	-	18%
Loan	T	-	18%
Investment	T	-	18%
Remittance (NEFT,RTGS)	T	-	18%
Forex	T	-	1% of gross rupee
Banking facility	T	-	18%
Insurance	T	-	18%
ATM	T	-	18%
Input tax credit	T	-	18%
Pension	-	NT	18%

VIII. CONCLUSION

This study concludes that GST is amore touch and challenging initiative taken by the government for sustainable banking and a uniformity tax is imposed on all product and services. The challenges faced by the financial sector a highlighted in this paper in order to understand how challenging the implementation of GST in the banking sector was. As per the GST law state that banks engaged in supply of product and services by way of accepting deposits, extending loans must reserves 50% of eligible input tax credit on inputs, capital goods, and input services. The impact of implementation of GST on banks will be such that transaction, operation, registration, accounting and compliance will need to be restructured in is entirely. The slight increase in cost in the financial services should be taken at a bitter pill for a better future.

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