

A study on the impact of Goods and Service Tax on Banking service charges and Commission post GST

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Abstract-Banks are backbone of our economy. A banker provides the financial needs of their customers. By acting as a custodian of his assets, providing credit facilities and assisting him to speedily put through financial transaction. Bank services need considerable improvement on an emergent basis & the time has come for banks to look inward to find out what is the nature & quantity of the products they sell, what is the product demanded by the customers. Service to the society means service to customer present & future. From the point of view, the prime function of banks can be defined as the creation & delivery of customer needed services in a satisfying manner. As banking services are very important for any customer, an effort was made in the study to analyse the impact of GST on various banking service charges post GST.

Key words: Banking service, GST, Customer, bank, agency and general utility services.

INTRODUCTION

Banks are playing a crucial role in the economic development of the country. In modern economy, Banks are considered not merely dealers in money but also as reservoirs of resources necessary for economic development. In this context they provide Agency services and General utility services apart from providing primary banking services.

SERVICE CHARGE

A service charge is a type of fee charged to cover services related to the primary product or service being availed. Various services provided by the banks were; Lending money, Safety lockers, Demand drafts, Payments, Debit and credit Cards, Online Banking, Mobile Banking, Cheque book, Consultancy, Bank guarantee, ATM services, etc.,

IMPACT OF GST ON BANKING SECTOR

REGISTRATION:

As per Model GST Law, banks having branches in multiple States and Union Territories (UTs) will be 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 would require 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.

PLACE OF SUPPLY OF GOODS AND SERVICES

- In banking industry, it's interesting to know the place of business.
- Even though the person is having an account in a single location, he can do the transactions across globe through internet banking.
- The account holder can use his mobile or laptop and can do transactions from anywhere.
- A Customer having an account in Chennai may do the transaction from Delhi and can transfer money to persons from Kolkata having account in Mumbai. Here point of supply identification is very much required for taxation purpose under GST.
- As per law even though it can be tracked it will be cumbersome tasks and determining point of supply of services would add significantly to the compliance cost.
- Taking the example above, is it required to take the registration across India in each state and Union Territory to abide by the laws of each state and Union Territory.
- 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:

- ❖ Initial verification is done by outsourced local agencies,
- ❖ Loan processing is done centrally,
- ❖ Disbursement done locally,
- ❖ 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.

INVOICING

- Section 25 of the Model 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 in the course of GST Will help to reduce tax evasion. Under GST doing business will be easy. The increase in business will lead to additional demand of funds. Addition demand of funds will lead to increase in number of transactions in the bank as the business and current scenarios ask to go for digital transaction.

OBJECTIVES OF THE STUDY

1. To Understand the process of implementation of Goods and Service Tax (GST)
2. To comprehend how GST is imposed on different banking services provided by banks
3. To find the Impact of GST in banking activities

RESEARCH METHODOLOGY

The study is based on primary data. The structural questionnaire administered to the respondents was aimed at eliciting the most essential information and data relating to the objective. A scrutiny of all the response was done. Data was further tabulated on different characteristics relating to the study. Data was analyzed using a statistical technique of percentages. Charts/ diagram are shown wherever it was felt relevant to understand the clear breakup of the concept.

SAMPLING METHOD

Table-2: Respondents’ response about impact of GST on banking services

STATEMENT	RESPONSE		
	YES	NO	DON'T KNOW
Banks charge for not maintaining minimum Balance	45 (90%)	0 (0%)	5 (10%)
GST influence banking behaviour and activity	50 (100%)	0 (0%)	0 (0%)
Amount of Bank charges increased post GST	50 (100%)	0 (0%)	0 (0%)
Commission on all the bank services increased post GST	50 (100%)	0(0%)	0(0%)
Any Banking services become cheaper post GST	0(0%)	50(100%)	0(0%)

(Source: Primary data)

Table-2 depicts that 90% respondents opined that banks charge for not maintaining minimum balance, 100% agreed that GST influence their banking behaviour and activity, 100% respondents said amount of bank charges increased post GST, 100%

Stratified sampling method was instituted to select the banks, two each from public sector and private sector were selected. Simple random sampling method was adopted to select the respondents.

The banks selected were; State Bank of India, Canara bank, ICICI bank and Axis bank

SAMPLE SIZE

FIFTY respondents (customers of selected banks) were selected for the study, TEN from each selected banks.

DATA ANALYSIS AND INTERPRETATION

Table-1: Services of the bank do respondents use normally

Services	No. of respondents	Percentage
Banking	50	100
Safety lockers	08	16
Demand drafts	32	64
Payments	45	90
Cards	38	76
Online Banking	39	78
Mobile Banking	37	74
Cheque book	48	96
All the above	41	82

(Source: Primary data)

Table-1 describes all the respondents (100%) avail banking services i.e, depositing and withdrawing the money from the bank, 96% avail cheque book facility, 90% us the bank for making payments, 80% use all the facilities mentioned in the table, 78% use online banking, 76% debit/credit cards, 74% mobile banking, 64% go to bank to take demand draft and Only 16% avail locker facility from the bank.

respondents opined that Commission on all the banking services in all the services increased and 100% respondents said no bank service is cheaper post GST.

Table-3: Respondents’ views on impact of GST on various aspects post GST

Statement	Respondents’ views			
	Positive impact	Negative Impact	Both	No Impact
Effect of GST on Banking industry	10 (20%)	35 (70%)	0 (0%)	5 (10%)
What percentage of charges increased	1% -5% 5 (10%)	5% - 10% 5 (10%)	10% -15% 35 (70%)	More than 15% 5 (10%)
Which sector of banks has high bank charges post GST	Public 5 (10%)	Private 30 (60%)	Foreign 15 (30%)	Others 0 (0%)
Impact of GST on customers’ business activities due to increase in banking charges post GST	Impact not assessed yet 5 (10%)	No impact 5 (10%)	Moderate impact 25 (50%)	Substantial Impact 15 (30%)

(Source: Primary data)

Table-3 discloses that 70% respondents agreed that GST has negative impact on banking industry, 70% respondents told that there is 10 -15% increase in banking charges, 60% of respondents said Private sector banks has high bank charges and 50% respondents revealed that GST has moderate impact on their business activities due to increase in banking charges post GST.

Table – 4: Bank having high amount of banking charges post GST

Bank	No. of respondents	Percentage
State bank of India	10	20
Canara bank	05	10
ICICI bank	15	30
Axis bank	15	30
Others	05	10
Total	50	100

(Source: Primary data)

Table- 4 displays that, ICICI bank and Axis bank has high amount of banking charges as 30% of respondents agreed, 20% told that State bank of India, 10% said canara bank and 10% respondents chose others.

CONCLUSION

With the implication of GST on the financial sector as well, its impact on banks will need to reconsider its operations, accounting, compliance and transactions entirely. Moreover, the IT system will have to be vigilant enough to solve the complexities related to GST procedures and compliance at a higher volume.

Implementation of GST will create a fuss for banking sector. Consumer will be charged 3% 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. GST and its impact on Banking Sector

Finally as per the study, GST has made a positive as well as negative impact on the banking activities, GST implementation has increased the interest rates on bank lending activities which is negative sign to customers, GST has increased the services charges on services like DD, RTGS NEFT etc which also a negative sign to customers.

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