

# Impact Of Goods & Services Tax On Indian Banking Sector

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*Abstract: Goods and service tax has impacted the complete structure of Indian economy and different private including government sectors. The main idea behind the initiative is to enhance the taxation system of the country. With the help of this initiative, indirect taxes that were there in the country are completely removed in an efficient manner. Compliance and legal procedures are required to be followed by the people of the country. This has proved to be simple administration for the central and the state governments. Thus, in this document below we will be illustrating about the impact of goods and services tax on the customer and the different sectors like banking one. We will be mainly focusing on the effect of GST on Indian banking sector. There will be the discussion of issues that bank had to encounter because of the GST and there will be the elaboration of benefits for the banking sector as well. Research methodology that will be accumulated is different research articles, government websites and online sources for information. Objectives of the proposal will also be included for the enhanced comprehension of the concept. In total, we will be providing the detail information of impact of GST on Indian banking sector till date.*

*Keywords: Indirect taxes, Goods and Services tax, features, structure, impact, Indian banking sector.*

## I. INTRODUCTION

Goods and services tax or GST in India has been identified as the tax that is destination-based, multi-stage and comprehensive which is applicable on the addition of every value. Basically, it is an indirect tax that is levied on the goods and services apply. This indirect tax has managed to replace laws that were present in the country. Currently, this is the only tax for the whole country. This tax impacted the different fields of the country positively and negatively. For business industry, it proved to be easy compliance, uniformity tax rates and structure, cascade removal, enhanced competitiveness, profit to the manufacturers and exporters. It provided simple and easy administration to the central and state governments, better controls on leakage and higher revenues. The impact of goods and service tax on consumer was single and transparent tax proportionate to the value of GST and relive in the complete burden associated with the tax. The influence of GST on Indian banking sector was not that positive as most of the modifications were included in the laws of this sector. This report will be including the discussion of impact of goods and services tax or GST on Indian banking sector so that

appropriate comprehension can be gained. There will be the integration of certain research papers which will be elaborating the concept more comprehensively. The papers will be including the illustration in a positive or negative approach that is how GST has affected the Indian banking sector.

## INTEREST RATE

There are certain modifications in interest rate that have been integrated after the proposing of goods and services tax. One of them is that the interest has to be paid by every taxpayer on the late payment after due date. Secondly, it accumulates the claiming of excess input tax credit and reducing the excess output tax liability. It is relevant to make the tax payment and the return of GST within the due dates.

## TAX RATE

A tax rate is the percentile at which an individual or corporation that is taxed. The tax rate under the goods and service tax is imposed by the government that is federal and

certain states based on the taxable income for the individuals or the earnings of corporation. The tax rate under goods and service tax is helpful in building and maintaining the infrastructures used in the country and the government usually charge the taxes to the citizens. Tax rate collected under the goods and service tax is used for the enhancement of the economy and for the people's better life.

## II. LITERATURE REVIEW

Many researchers and economists have studied the impact of Goods and Service Tax from different perspectives. For the purposes of this research, the following studies have been referred.

Pandey (2017), discussed that, goods and services tax or GST impacted many fields but it has influenced mainly banking sector. Banking sector had to go through several issues because of the initiative taken. It proved to be useful but it had negatives as well that couldn't be ignored. The major problem banking sector had to face was substantial increase in compliance. Banks were required to obtain the registration on the basis of state-wise. One registration was necessitated for all the branches located in the state which created many hassles for banking sector. Because of state-wise registration it was important for every bank to fulfil the requirements of compliance levels. Thus, this paper has provided the appropriate comprehension of the impact of GST on Indian banking sector.

Syed Mohd Ali Taqvi, Srivastava and Srivastava (2011), in their research article has included the illustration of goods and services tax or GST on Indian banking sector in an efficient manner. They discussed that transactions among the branches were not subjected to any sort of tax though it is required in the regime of tax. Commonly, banks have similar services that are shared which are supported from the head office like call centre or software security and so on. As GST system has been launched so banks are necessitated to deliver solution to customer in any branch for instance, each branch will have to resolve the issue of PAN Indian account for customer and also are accountable for delivering local information. There are so many problems which have to be faced by the banking sector because of GST program.

Yadav and Shankar (2018) studied that, as per the GST law, it is important that the supply services places for banking and other financial services or BOFS should be the service recipient location on the records of the service supplier. In any case, if the location is not on the supplier records, the supply place should be the service supplier location. So, banks might have different accounting records or customer records or vendor record and it has become their accountability to manage single customer ids for different account which proves to be hectic for the bankers

In the research conducted by Bhasin (2017), he stated that, Taxability of interest is another impact that banking sector had to face because of the goods and service tax. In the present regime of tax, the legislation of service tax doesn't tax interest. But through the use of term of GST service is depicted in a huge manner for covering anything other than that of goods. Authorities across the globe don't levy GST on

the fact, there is always a discussion on that the interest and on the lending money consideration. The goods and service tax in the country is required to clarify the interest if GST is from outside. If interest is not attracting any goods and services tax then implications on input tax credits can be claimed by the banks easily.

In another related study (R, 2017), concluded that, GST services are anticipated to be attracting around 18% interests. The rate is bigger by 3 % from the present tax rate of 15%. This led to making the services of bank little complex such as issuing of the cheque books and demanding of drafts have also become little expensive, particularly for the customers who are retailers. Also it is important to note that nowadays banks are also dealing in commodities like gold or silver where GST rate that is concessional is anticipated to be applicable. Thus, banks are required to be cautious while paying the goods and service tax with the adequate applicability rate on altered products.

Further article on Issues in GST on Banking Sector (10 Feb. 2018), has provided the understanding of impact of goods and service tax on Indian banking sector. Adjudication and assessment has become difficult because of the goods and service tax. All registered branches of the bank are required to provide their justification for the position according to its chargeability in a particular state. Banks are required to provide a reason that is valid for making use of the ITC in different states. Whereas, if it's the matter of adjudication then the process is stretched which leads to the owning of authority of more than one adjudication.

Syed Mohd Ali Taqvi, Srivastava and Srivastava (2011), stated that, the section 25 of model law necessitates service uploading on the goods and service tax network (GSTN). It means that the service recipient desires for availing input tax credit, each document is charged by the banking sectors through levying the goods and service tax. As bank doesn't issue any sort of invoices for the service provided so it has become intricate task for issuing invoices like for small accounts and uploading on GSTN. Thus, it is relevant that an issue invoices must be made easier which has already become a tough errand for the banks

Similar research conducted by Dahal (2010), examined that, managing the tax credits and utilization or unutilized is already very complex for the banking sector. But, now because of the goods and service tax all the banks are required to maintain and manage it in an efficient manner. Basically, what banks are required to do is that they must ensure about maintaining the separate accounts for having the control over input associated with the tax credit including the credit that is utilized or unutilized. Goods and service tax has come up with so many complexities for the banking sectors as most of the legal implications are implied to them.

According to Nayyar and Singh (2018), Goods and service tax impacted the banking sector in a positive manner as well as there are certain advantages as well that have been provided to the bankers. Some of them includes that the bank becomes capable of settling off their liabilities associated with the goods and service tax against the credit that is associated with the receiving on goods purchasing. Secondly, banks have become partially qualified for taking partial credit of excise duty and service tax that is paid on the goods that are

qualifying and procured and also for the services which are used for the provision linked to service that is output.

As per Purohit and Purohit (2010), the impact of goods and service tax on the bank sector is proved to be positive for them as the bank doesn't get tax credit that is input of state VAT paid on any goods that are procured by them. Banks have become capable of taking credit of goods and service tax on the goods procured. Secondly, input tax credit can be used by the bank for the purpose of making any sort of supply that is outward. Goods and service tax proved to be helpful in reducing the evasion of tax. The business increase will be helpful in increasing the transactions number in the bank because of the additional demand of funds.

### III. RESEARCH PROBLEM

The concept of Goods and Services Tax (GST) is the biggest change in the tax structure of the country throughout the world. The role of research intends to focus on understanding concept of goods and services tax and its impact on Indian banking sector.

### IV. NEED OF THE STUDY

This study will help us to examine the effect of GST on banking sector after its execution in India. It will also show the structure of GST and gap between previous indirect taxes and current one GST. This study will also help us to examine the opportunities and challenges which are linked to banking sector after implementation of GST.

### V. OBJECTIVES OF THE STUDY

- ✓ To study the concept and structure of GST
- ✓ To study and understand the impact of GST on Indian banking sector
- ✓ To study the benefits and difficulties those are linked to banking sector after implementation of GST.

### VI. RESEARCH METHODOLOGY

For this research secondary data has been collected from various published government reports, books, national & international journals, publications from various websites which focused on various aspects and important of Goods and Service tax.

### VII. STRUCTURE OF GOODS AND SERVICE TAX (GST)

Goods and service tax is the full tax charge on the services that are associated with the manufacturing, sales and goods expenditure. The main purpose of the provision is linked to uniform the system of indirect tax that is scattered in the country. Another major purpose of this initiative is interlinked with the avoiding of effect that is cascading on the

taxation. GST has been identified as the biggest reform of tax in the structure of India. GST led to many changes in Indian taxation system and has proved to enhance the current system of taxation to the ratio of gross domestic product and also led to inhibit the inflation. The tax system of the country has augmented in several manners and has proved to be beneficial for the various sectors.

### NEED FOR GST MODEL IN INDIA

There are following reasons which are associated with the adoption of goods and services tax and some of them are as following:

- ✓ The presence of GST is unique to the present system of tax that consents for diversity of taxes.
- ✓ Areas that are uncovered from taxes can be helpful in covering those areas efficiently.
- ✓ It will be helpful in avoiding the confusions caused by the current structure of complete tax and will also be useful in the common national market development.
- ✓ It will be helpful in ensuring the tax compliance all over the country.
- ✓ It will be offering the greater certainty and taxes transparency.
- ✓ It will also help in avoiding the double taxation system.

### OBJECTIVES OF GOODS AND SERVICE TAX

There were certain objectives due to which the initiative of goods and services was taken. Goods and services tax aims or objectives are associated with the following points:

- ✓ One of the main purposes of introducing the goods and services tax in the country is one country –one tax. Basically, there is no requirement of paying hundred of taxes and this is why GST has been introduced.
- ✓ Another main objective is to reduce the evasion of tax and to eliminate the corruption rate in the country which is very high.
- ✓ The introducing of goods and service tax was initiated so that the productivity can be ensured in the Indian economy and in the taxation system of the country. As the current system of the taxation system is not that efficient and is leading create certain issues in the taxation procedures so goods and services tax was proposed to mitigate this issue. Thus, the proposing of goods and services tax would be helpful in the eliminating of the effects that are cascading on the productions and the goods and services distribution.
- ✓ The initiative of goods and service tax will prove to be beneficial in enhancing the gross domestic product and will be enhancing the complete economy condition of the country into something efficient.
- ✓ With the help of goods and services tax, taxes that are indirect will be eliminated in a proficient manner. Secondly, the streamlining of taxes that are indirect will be beneficial for the manufacturing and mainly for the customers.

- ✓ Goods and services tax will be useful in covering all the shortcomings of the present VAT system and will be useful in serving for the economy health efficiently.
- ✓ Economy distortions in the country are very huge and this is why the goods and services tax is proposed as it would be beneficial in removing it efficiently.

#### VIII. IMPACT OF GST ON INDIAN BANKING SECTOR

One of the main objectives is to study and understand the impact of GST on Indian banking sector. As GST has impacted the complete sectors of India but banking was the one that had to face certain consequences. Most of the regulations and laws were amended for the banking sector. All the policies and the regular procedures of the banking sector were modified and altered due to which the complete burden of handling the overall framework was on banking sector.

The impact of goods and services tax on the Indian banking sector was huge as it led to replacing all around 17 central and state taxes so that a solitary way for entire taxation system can be made in the country. The banking sector has become expensive for the consumers and it will be requiring a shift from the compliance that is centralized to the compliance that is state-based. The complete business process of the banking sector is modified because of the proposing of goods and service tax in the country.

#### IX. DIFFICULTIES TO BANKING INDUSTRY

There were certain difficulties that banking sector of the country encountered and these difficulties are as following:

- ✓ One of the main problems was that the banks had to manage the number of branches and registration became a complete hassle. Banks were required to attain a separate registration for every state.
- ✓ Input tax credit led to the leverage and de-leveraging because of the goods and service tax in the country.
- ✓ Assessment was an issue because it could only be initiated if the branch is registered in the state. Each and every branch in the state is required to justify their position on the basis of chargeability.
- ✓ Non-account linked financial service was another issue as the supply place is required to be the location of provider of service. Banks are required to establish their existences in the location that are remote and which created a lot of hassle for the banking sectors.

#### X. BENEFITS TO BANKING INDUSTRY

- ✓ The major advantage of GST on Indian banking sector includes that it's a transparent tax and it has efficiently reduced the number of indirect taxes in the country.
- ✓ Banks will be having the efficiency of setting their liabilities of goods and service tax against the received on the buying of goods and services.

- ✓ Under the mechanism of CENVAT, banks will become eligible for taking partial credit on the duty of excise and service tax paid on the qualifying goods procurement and the services that are used for the output service provision.
- ✓ Under the regime of GST, tax credit will be consented to the banking sector with which they will be able to make outward supply.
- ✓ GST will be helpful in reducing the evasion of tax and the complete business process will be easier. The enhancement in business will be leading to the supplementary demand of funds which will be helpful in increasing the transactions number in the bank and present scenario will force to opt for the digital transaction.

#### XI. CONCLUSION

In this document, we have included the discussion of impact of goods and services tax on Indian banking sector. To elaborate it in a more comprehensive manner, we have encompassed the detailing of literature reviews as they are more useful in understanding the complete activities associated with the initiative. There is the integration of different aspects associated with the goods and services tax. The information is accumulated through research articles and online help so that the efficient understanding can be gained. In this paper we have discussed the positive or negative effects of GST on Indian banking sector.

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