

IMPACT OF GST ON BANKING SECTOR

Banking Sector is one of the most Important Sector in India. Its contribution to GDP is 7.7%. It has generated huge employment in the economy.

Present Taxation:

Currently, No Service Tax is payable on income earned by way of interest income as the same is excluded by way of Entry (n) of Negative List. As per Entry (n) of Negative List, Services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount.

- Commission Income earned by bank is currently liable to Service Tax.
- Brokerage Income earned by bank is currently liable to Service Tax.
- Agency Charges earned by bank is currently liable to Service Tax.
- Portfolio Management Service Liabile to Service Tax.
- Account Maintenance charges or locker charges currently liable to service Tax.
- Credit and Debit Card Charges liable to Service Tax.
- Income earned by way of penalties, retention charges are also liable for payment of service Tax.
- Currently, Inter Sale or Purchase of Foreign currency amongst bank or Authorized dealers of foreign exchange is not liable to Service Tax as the same is excluded by way of entry (n) of Negative List.
- Currently, Services by Reserve Bank of India is not liable to service tax as the same is excluded by entry (b) of Negative List.

Under CENVAT Credit Rules, Banks have the option to pay for every month an amount equal to 50% of CENVAT Credit availed on Input and

Input Services in that month. As Per Budget 2016, Banks can reverse credit in respect of exempted services on actual basis.

Registration: Banks have the option of taking Centralized Registration in terms of Rule 4(2) of the Service Tax Rules, 1994.

Payment Date: By 6th of Next Month, for the month of March, March 31.

Returns Date: April to September 25th October, October to March 25th April.

Under GST:

1. Centralized Registration is not available under GST. Bank has to register separately for every state where they have a branch. (Section 22 of CGST Act). In case a bank has multiple branches in one State, only one registration is required for all the branches in that State.

2. As per Service definition given by section 2(102), Service means anything other than goods..... By interpreting this, Interest earned by bank will also be taxed in GST. Further Schedule III which describes activities or transaction which shall be neither treated as Supply of Goods or Services, no exemption is given to any of bank services. The GST Law in India should clarify if interest is outside the ambit of GST.

3. Inter Sale or Purchase of Foreign currency amongst bank or Authorized dealers of foreign exchange is also taxable in GST as no exemption is given.

4. Services by Reserve Bank of India are also taxable in GST as no exemption is given.

5. Under GST, A banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances shall have the option to either comply with the provisions of sub-section (2), or avail of, every month, an amount equal to fifty per cent. Of the eligible input tax credit on inputs, capital goods and input services in that month and the rest shall lapse (Section 17(2)).

6. Banks have to Furnish 3 Return every month and an Annual Return.

7. Currently, Service Tax Rate is 15 percent. In GST, if it becomes 18% (assume), bank services are likely to be inflated such as Issue of cheque books and demand draft.

8. GST is a Place of Supply based Tax Regime. Hence, for every transaction in GST, the bank will need to determine the place of consumption where GST will be paid.

9. Currently, if bank purchase asset like Computer, etc. they have to pay VAT on that but they are not getting credit of it. Under GST, they will get credit of this. In Case of Import of ATM Machine, etc., they will get credit of IGST also.