Impact on Banking & Financial Sector

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Introduction

The Goods and Services Tax (GST) has been the biggest tax reform in India since 1947. Analysts also expect that it will have a huge impact on various sectors of the Indian economy, especially the service sector. Of the segment comprising banks and non-banking financial companies (NBFCs), the fund-related, fee-based and insurance services will witness significant impact as a result of GST implementation and will see shifts from the way they had been operating earlier.

In fact, services sector are more affected by GST than the manufacturing/trading sector

What is really implied by financial services?

The term 'financial services' has not been specifically defined by the GST law. However, to understand the implications of this tax on the financial services sector, we need to consider the supply of goods and services that involve the extension of credit support. These services include but are not limited to:

– Loans

– Lease

– Hire purchase

– Conditional sales

– Securitization or assignment of receivables

– Acquisition or sale of shares and securities

The compliance towards GST can take some effort in the above fields because of the nature of operations conducted by banks and NBFCs concerning credit products, lease transactions, hire purchase, actionable claims and other funds and non-funds-based

GST impact on financial services

1. Network of branches to be registered separately

2. Leveraged and de-leveraged Input Tax Credit

3. Assessment and Adjudication are now troublesome

4. General services

Network of branches to be registered separately

Under the previous tax regime, it was possible for Banks with pan-India operations, to have a centralized registration. However in GST, Banks and NBFC's will now have to obtain separate registrations for branches in every state. This also enhances the compliance burden for filing returns substantially for them.

Leveraged and de-leveraged Input Tax Credit:

Banks and NBFCs would generally opt for the reversal of 50% of CENVAT credit in the previous tax scheme against input/output services. The CENVAT credit could also be availed on no reversal conditions. However, with GST in place, 50% of the credit has to be reversed, which leaves financial institutions with a 50% reduced credit. Thus the cost of capital has been increased for them.

Assessment and Adjudication are now troublesome:

Earlier respective state regulators would conduct the assessment for branches, however, now every registered branch and NBFCs have to justify its stance on chargeability and utilization of Input Tax Credit in different states. Also, the involvement of more than one adjudicating authority means a difference of opinion may be possible, thus prolonging the process.

Inter-state supplies of goods or services (or both) between two branches of the same bank:

Post GST, transactions between branches were not subjected to any taxes. However, this is taxable in the GST regime. Inter-state supplies of goods or services (or both) between two branches of the same bank, located in two States, will attract IGST

Impact of GST on banking sector – General services

Banks in India have been levying service tax on most transactions enabled by their systems. These include but are not limited to digital fund transfers, issuance of ATM cards and chequebooks, and ATM withdrawals beyond a specific limit. With GST on financial services, these services will be taxed at the rate of 18% instead of the 15% service tax rate that was being charged earlier.

For example, if you withdraw money from an ATM other than your bank's ATM after exceeding the "free transaction limit", you are typically charged Rs 20 plus a service tax, which comes to around Rs 23. With the imposition of GST, this amount will go up to Rs 23.60.

Revenue Recognition under GST

Financial Services that are Account Linked:

For account linked financial services, the location of the recipient will be determined by the place of supply. In cases where service recipients keep shifting bases, on the basis of better opportunities, location tracking will be difficult and may pose problems, when it comes to the permanent/current address, communication/KYC address of the service provider.

Financial Services that are Non-Account Linked:

In the case of non-account linked services, the location of the service provider is going to be considered as the location of service supply. This will again be a problem for companies that are widespread in various locations but operate from a back office, in a separate state.

Actionable Claims:

Actionable claims were not considered as a service and hence were non-taxable under the previous tax regime. In GST, they are now files under supply of goods and will be taxable

Transactions subject to GST

There are certain services provided by banks and NBFCs that are impacted by the implementation of GST. Some of the services include

Loan:

Loan being money to money transaction, is not subject to GST. Moreover, the interest that is to be charged on loans is also exempted from GST.

Lease:

Lease, in financial sectors, can either be a supply of services (transfer of the right to use goods for cash, deferred payment, etc.) or supply of goods (transfer of title in goods), which will attract GST at the rate similar to assets that are leased out.

Hire Purchase:

Hire purchase transaction includes a hirer providing an asset for use on hire rental basis and a right to acquire that asset at the end of the hiring tenure at a nominal rate. This transaction will, therefore, be charged at the same rate at which a hired asset is charged under GST.

THANK YOU

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