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Goods and Service Tax (GST) on Banking Products

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Abstract

Products refers to the output, which an organisation operates for.It may be Goods or Services that the outcome for the efforts of an entity. Service sector is the largest sector of India.Gross Value Added (GVA) at current prices for Services sector is estimated at 92.26 lakh crore INR in 2018-19.Banking sector has vital role in Indian economy and for rural as well as urban development as one of the largest service sectors. It contributes nearly 7.7% towards GDP.The Indian banking sector consists of 26 public sector banks, 20 private sector banks and 43 foreign banks along with 61 regional rural banks and more than 90,000 credit cooperatives. The business dynamics in banking sector is largely varies from other sectors.

Key words: GST, Banking, Banking Products.

Introduction

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lok Sabha on 6th May 2015 but is yet to be ratified by the Rajya Sabha.

Objectives of the study

1. To understand the conceptof GST.
2. To know the updated GST rates on banking products.
3. To identify the issues while implementing GST in banking products.

Research methodology

This study is purely based on secondary data collected from online newspapers, research articles, GST council reports and other government reports.

What is GST? Goods and Services Tax (GST) came into force from July 1, 2017 through the Constitutional Amendmentby the Indian government. The tax replaced existing multiple flowing taxes levied by the central and state governments.It is an indirect tax or consumption taximposedin India on the supply of goods and services. It is a comprehensive multistage, destination-based tax. It has subsumed almost all the indirect taxes except few.Multi-Staged as it is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer. And destination-based tax, as it is collected from point of consumption and not point of origin like previous taxes.

Goods and services are divided into five different tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%.Petroleum products, alcoholic drinks, and electricity are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%.The tax rates, rules and regulations are governed by the GST Council which consists of the finance ministers of centre and all the states.

Sellers have to collect GST in three ways from consumers.

- Central GST(CGST)
- State GST(SGST)
- Integrated GST(IGST)

Under GST, CGST is a tax levied on Intra State supplies of both goods and services by the Central Government and will be governed by the CGST Act. In Intra-State transactions, a seller has to collect both **CGST** and **SGST** from the buyer. The CGST gets deposited with Central Government and SGST gets deposited with State Government.

Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services and will be governed by the IGST Act. IGST will be applicable on any supply of goods and/or services in both cases of import into India and export fromIndia. This IGST will go to the Centre.

GST in banking

Earlier Service Tax was levied on Loans which has now been replaced by GST which would now be levied on loans. The rate of Service Tax was 15% whereas the rate of GST is 18%. Some peoplehave the opinion that the effective cost of having a loan would increase as the rate of GST is 3% higher than the rate of Service Tax. However, this is not the case as

GST is not levied on repayment of loan or on payment of Interest on Loan. Following are the GST rates of different loans.

Personal Loan-18%Home Loans -18%Car Loan -18%

GST is only levied on the processing charges and any other charges paid to the bank excluding the principal repayment and interest payment.These other charges include the Loan Processing Fees, Loan Prepayment Charges and other charges, if any. So, the impact of GST on Loans would be very negligible.(www.charteredclub.com)GST is not levied on free banking services. But there are certain other banking services on which GST is charged.Here are the 6 banking services on which GST is levied.

1. Late payment charges on credit card.

2. Delay in EMI Payment.

3. Cheque bounce charges.

4. ATM Transaction above the limit.

5. Card less Cash withdrawal and deposits at ATMs.

6. Insurance Policy premium payment for NRIs.

Issues in GST on Banking Sector

1. State-wise Registration.

   Bank branches have centralised registration under Service tax laws. The banks having multiple branches require State or Union territory wise registration in GST regime, for charging CGST and SGST.Moreover, under GST, accounting, administration, financial records etc, would be maintained for each state separately.

2. Sale of repossessed assets.

   When a bank re-possesses assets from a defaulter of loan & sales them, VAT is paid by the bank as a ‘dealer’ under state VAT laws in some States. In GST Law, if Banks are treated as suppliers of such assets, the overall cost of operations for Banks would go up, as it is expected that the rate of GST would be higher than the present VAT rate.

3. Address on record and place of supply.

   Under GST Law the place of supply of services for banking and other financial servicesshall be the location of the recipient of services on the records of the supplier of services.It is necessaryto record the address of each account holders within the same customer id and GST to be charged on that account holder and tax also must be paid to that respective state government of the account holder and not the single address captured for the entire customer id.

4. GST on interest income.At present, interest income is covered under negative list and not taxable. Under GST the term 'service' is defined as any thing other than goods which may cover interest as well.

Conclusion

Banking services charge 15% service tax currently which will increase to18% under GST.GST is only levied on the processing charges and any other charges paid to the bank excluding the principal repayment and interest payment. These other charges include the Loan Processing Fees, Loan Prepayment Charges and other charges, if any. So, the impact of GST on Loans would be very negligible. But there should be a clear clarification on the above-mentioned issues in this sector.

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