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# **SPECIAL ISSUE ON** Impact of GST on Economy, Commerce and Industr





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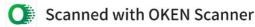
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# SPECIAL ISSUE ON Impact of GST on Economy, Commerce and Industry

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### Impact of GST on Banking and Finance

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#### Introduction to GST:

GST is an Indirect Tax which has replaced many indirect taxes in India. The goods and service Tax Act was passed in the parliament on 29th March 2017. The Act came in to effect on 1st July 2017; Goods and services Tax Law in India is a comprehensive, multi-stage, destination based tax that is levied on every value addition in simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country. The Pattern of Tax Levy before the introduction of Goods and Service Tax. Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, central GST and state GST are charged. Inter-state are chargeable to Integrated GST. The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017, the GST bill was passed in the Lok Sabha and Rajya Sabha. On 1st July, 2017 the GST Law came into force.

As per the constitution of India, under the old indirect tax structure, numbers of taxes were being levied by the central Government, State Government or local authority and each tax was having a different taxable event. However, the major sources of income of Central Government and State Government were excise duty, custom duty, service tax and sales tax/VAT. In order to give the motive of "One Nation One Tax" and introduce GST, equal power to make laws with respect to Goods and Services Tax had to be given to Parliament and the legislature of every state. The One Hundred and Twenty Second amendment bill of the constitution of India, officially known as "The constitution (One Hundred and First Amendment) Act, 2016" introduced a national "Goods and services Tax" in India from 1<sup>st</sup> July 2017.

#### Taxes under GST:

There are three taxes applicable under this system: CGST, SGST and IGST.

- CGST: Collected by the Central Government on an intra-state sale (eg. transaction happening within Maharashtra).
- SGST: Collected by the State Government on an intra-state sale (eg. transaction happening within Maharashtra).
- IGST:Collected by the Central Government on an intra-state sale (eg. Maharashtra to Tamil Nadu).

However, the impact of GST on the banking sector is high and in a way, the functioning of banks is affected the most amongst all the sectors under GST, the financial industry is one of the major sectors. So, forming a structure to keep up with GST chances is a necessity for banks and NBFCs. But,

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it is difficult for these banks and NBFSCs to adjust to this structure as they provide various service such as lease transactions, loans, hire purchase and other non-fund and fund operations.

Moreover, the GST has increased the tax to 18% on services provided by banks and NBFCs Earlier, only 15% service tax was levied on services of NBFCs and banks.

## GST and It's on Banking and Financial Sector:

### 1. Difficult Registration Structure:

Before the implementation of GST, all the banks and NBFCs maintained their service tax compliance via a centralised process of registering, Even when these banks had different branches in various states and union territories, the compliance registration was not done separately. With GS7 banks and NBFCs need to carry out tax registration separately for every branch they have. Since GS1 is a destination-based regime, it has formed a multi-stage system. The tax is received at every stage and the tax already paid in the last stage is received in the next stage. No doubt, it has streamlined the tax structure and helped the industry with enhanced cash flow, but GST compliance is still a challenge.

#### 2. Hassle of Input Tax Credit:

Before GST, banks and NBFCs were able to option 50% reversal of CENVAT (Central Value Added Tax) credit that was acquired from input services and inputs. The credit for CENVAT on capital goods was reversed without applying any conditions. Now, the terms for this reversal have been changed and for input services inputs, as well as capital goods only 50% of availed CENVAT credit is reversed. In this reference, the impact of GST on banks is great as they are left with 50% reduced credit on capital goods and the cost of capital is overall raised.

#### 3. Assessment and Adjudication:

GST and its impact on the financial sector is seen in the form of Assessment and Adjudication changes. Previously banks and NBFCs had to resort to a particular state regulator in which that branch was registered for assessment of service tax with GST every branch of banks and NBFCs has to justify its chargeability position in the respective state and provide a reason for input credit tax usage in different states. Additionally under GST multiple adjudication authorities are involved. This leads to delay in adjudication as there may be different opinions on one underlying issue. Pre-GST only one adjudication authority was to be contacted for an underlying issue, which was obviously feasible, fast and convenient for banks.

#### Benefits of GST for Banks and NBFCs:

- Pre-GST the banks were only able to receive a partial credit of CENVAT and no state VAT credit on procured goods was obtained. Since all the indirect taxes are subsumed to GST credit for GST applicable on procured goods can also be availed.
- As is widely known, GST curbs tax curbs tax evasion and reduces the formation of a parallel economy. This will allow financial institutions to reap benefits in the future with more accounted transactions and increased demand for funds.

## GST Impact: Financial Services Industry in India:

The application of GST the tax bracket has been increased to 18% which was earlier 15% was service tax. For example after exceeding the ATM cash withdrawal a certain (lets assume INR 25)

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