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INDIAN BANKING SECTOR -ISSUES AND CHALLENGES ON GST IN NAGERCOIL TOWN

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ABSTRACT

The introduction of GST would be a significant step in the reform of indirect taxation in India. Amalgamating several central and state taxes into a single tax would mitigate cascading or double taxation, facilitating common national market. It is expected that service sector will have major impact of GST than other sector. The banking sector is one of the largest services sector in India. Banking Sector plays a very important role in monetary policies of country overall frame work and the business dynamics of this sector will largely differs from other sectors. The purpose of this study is to know the challenges faced by the Banking sector and its effects on the customers after the implementation of the GST. New tax Regime made an incredible step by the abolish of centralized registration of the banks. Now all the bank branches have to register under GST in each state for the smooth functioning. The tax rate has created an impression in the banking sector that the sector is contributing much toward the economic growth of the country. In this paper attempt has been made to know what are issues and challenges faced by Indian banking sector after implementation of GST.

Keywords: GST, Banking sector, challenges faced by Indian banking sector, Issues of GST.

INTRODUCTION

Taxes are as old as civilizations. Taxes are imposed so that a government may perform its traditional functions undertake welfare and development activities, and make provision for public goods to satisfy collective needs of the people. It has also pay for its own administration. The introduction of GST would be a significant step in the reform of indirect taxation in India. Amalgamating several central and state taxes into a single tax would mitigate cascading or double taxation, facilitating common national market. The simplicity of the tax should lead to easier administration and enforcement. GST can be termed as "one tax, one nation and one market". GST is building an impact on every business sector in the country, including service sector. The service sector like banking, insurance and other financial services. The attempt has been made the impact of implementation of GST on banking sector. Banking sector plays vital role in the development of the country. Because money or finance is the life blood of the business. Were as banks provide finance or money to needy people and accepting deposits from the public. In India the banking system is undergoing structural transformation under the influence of globalization, deregulation, technological advances and institutional, legal, and taxation reforms.

GST IS CHARGED ON ALL BANKING ACTIVITIES

Banks have charged GST on various products and services carried on by the banks except for deposits, which can be classified like this

(1) TRANSACTION CHARGES:

Transaction charge is something which we pay when we are in need of quick cash and it is a tendency to run to the nearest ATM's available. The changes in the ATM's transaction charges, making multiple trips to withdraw cash or check balance will cost you more under the tax system GST. Transaction charges have been increased to 18% which was 15% earlier. The shocking news is that the ATM transactions are restricted to a certain point i.e., first 5 withdrawals are free after 5 withdrawals Rs.20 per withdrawal is charged in order to reduce the withdrawal of money through ATM's which will automatically increase the usage of internet banking. Also, the usage of chequebooks will be expensive if any customer uses more than 50 cheques a year and it is charged less than Rs.100. The individuals have to pay Rs.3 more for every Rs.100 paid for banking transactions.

(2) LOANS:

As per information, it is said that all the loans are taxable under GST for 18% and there is no chance of tax percentage to go beyond the tax slab of 18%. But there is a big concern about the home loans which was availed to the borrowers for a VAT of 5% for construction materials and 3.5% service tax, overall of 8.5 which is now available only as per the GST rate 18% which will be little more expensive for the borrowers [18]. And there is a chance of an increase in the interest rate added on home loans by the banks and lenders too.

(3) INVESTMENTS:

Investments like mutual funds are affected negatively due to the introduction of GST. GST bang on the income of mutual funds will certainly have an effect on the consumers. For an investment company, an expense ratio is a cost incurred by them to operate their mutual funds. The Goods and Service tax will be on the Total Expense Ratio of the mutual funds and has been increased by 3%. In case of the policyholders, they have to pay high premiums amount on their insurance assuming, a family spend a sum of Rs 50,000 per annum on insurance exclusive of service tax, their expenses will be increased by 3%, i.e., Rs 1500. Earning up to Rs 20 lakh will stay exempted from GST for mutual fund distributors

(4) INSURANCE:

GST has a severe effect on insurance as there is a rise in the premium, especially for life, health, and car insurance policies. The tax rate has increased from 15% to 18% under GST. For example, if the complete premium is for life insurance, a tax rate of 18% will affect the entire premium.

(5) INPUT TAX CREDIT:

Under GST, 50% of the CENVAT credit availed against inputs, input services, and capital goods is to reverse which leaves them a position of reduced credit of 50% on capital goods thereby increasing the cost of capital. Input tax credit is covered under GST only when your supplier has deposited the tax he collected from you. It is to be matched and validate before claiming it. So, it is compulsory that all supplier must is registered under GST [22].

ISSUES AND CHALLANGES OF BANKING SECTOR

1. Separate registration for each state where they operate:

Before implementation of GST all banks in India have a centralized registration for all its branches. The banks having branches in more than one state will required to obtain registration in each state in the GST regime. It creates compliance burden about filling of multiple returns state wise, multiple audits and assessments. Under service tax filling two returns annually now under GST 61 returns per year i.e... 5 returns per month plus one annual return.

2. Determining place of supply could be critical:

- The place of supply of services for banking shall be the location of recipient of services on the records of the supplier of services.
- If the location of the recipient of services is not on the records of the supplier, then the place of supply shall be the location of the supplier of services.
- However what constitutes the "records of the supplier" is not defined in the law leading to multiple interpretations as to whether it is to be understood as accounting records or customer records, vendor records so on.

3. Interstate transaction between the same banks at two branches is taxable:

Under service tax rules the transactions between two branches of the same bank was not subject to any tax .but under GST this will attract integrated goods and services tax (IGST).

4. Assessment and adjudication made rigid:

Under service tax rules the assessment was made by state regulators where specific bank is registered. Currently under GST every registered branch of banks must justify its position on chargeability in the respective state and reason for utilizing input tax credit in different states. During the pre-GST administration a taxpayer is adjudged by a single authority on an issue involved. Now under GST regime more than one adjudicating authority will be involved, each one may have different opinion on the same underlying issue. This will lead to more time to solve an issue.

5. Actionable claims:

Before implementation of GST Actionable claims does not attract any tax and hence no tax is payable. After implementation of GST actionable claims now included in the meaning of supply of goods. Services provided from bills discounted to securitization will now be taxed as an effect B2C and B2B majorly.

6. Interest is taxable:

Pre GST implementation interest income and discount provide by the banks are under negative list, so no tax can be payable under service tax. But now under GST service is defined in wide manner to cover anything other than goods which may also cover interest. In other parts of the world does not levy GST on interest, India is only the country levy tax on interest.

Tax rates imposed by banks

- Pension-not taxable
- Deposits -not taxable
- Debit and credit cards -18%
- Loan -18%
- Investments -18%
- Banking facilities – 18%
- Remittances (RTGS, NEFT) – 18%
- Insurance -18%
- ATM – 18%
- Input tax credit -18%
- Foreign exchange – 1% of gross rupee.

Difficulties to banking industry:

- Every bank need to register for their all office location.
- They have to maintain separate books of accounts for each state where they registered.
- They have to audit the financial statements separately for each state where they registered.
- The tax burden is increased because tax rate is increased to 18% compared to earlier service tax of 15%.
- IT software systems of banks are needed to update to file invoices.
- Lack of skilled resources and need for training with updated GST subject knowledge.

Impact of GST on customers of banks:

- ✓ Debit and credit card charges increased because of hike in 3% of tax rate.
- ✓ Loans charges are also increased because of increase in 3% of tax rate.
- ✓ Mutual funds negatively affected to customers after implementation of GST.
- ✓ ATM Services charges become costly after implementation GST.
- ✓ ATM money withdrawal limits is decreased by SBI.

OBJECTIVES OF THE STUDY

- ❖ To study the issues and challenges of banking sector after implementation of GST.
- ❖ To explore the impact of GST on customers of the banks.

SCOPE OF THE STUDY

GST is having different challenges of banking sector used by the customers. As the customers are placed last in the supply chain and the end user of such goods and services, it is important to know how customers have an effect of GST. The respondents in the present study Indian banking sector issues and challenges on GST in Nagercoil town.

STATEMENT OF THE PROBLEM

The present research is exploratory in nature. Since GST is a new phenomenon in India, there are hardly any studies in this area. Especially there is a huge gap of empirical and behaviour studies on GST in India. The study tries to find the significance of popular perception regarding GST. Professional in the Indian financial system are facing problems of clarity in the concepts of GST. Goods and services tax is currently going under tremendous pressure to go through some of the burnings and solution-seeking problems of the year-old implemented indirect tax regime. Therefore it is the need of time to have the study on the Indian banking sector issues and challenges on GST in Nagercoil town.

RESEARCH METHODOLOGY

The article has been written in the descriptive form. The study is descriptive in nature. The method used for the collection of data is only secondary and observation method. The secondary data has been collected through journals, articles on the topics, magazines, books, internet, and previous research paper which focused on the GST impact on banking.

SAMPLING

Research design is an arrangement of condition for collection and analysis of data. In this study only a few units of population where considered for analysis 140 samples. Convenience sampling method is followed to select the sample respondents. Sample respondents were selected from the Indian banking sector issues and challenges on GST in Nagercoil town.

TOOLS FOR ANALYSIS

The data obtained from the respondents are analyzed with the help of statistical tools.

1. Garrett ranking technique
2. Weighted average

Table: 1

GST implications and challenges on banks

SL.NO	challenges	Means score	rank
1	Revenue recognition under GST.	62.85	I
2	Input tax credit leveraged and de-leveraged	60.25	II
3	Assessment and Adjudication.	59.22	III
4	Actionable claims	51.35	IV
5	Financial Services not related to account.	43.49	V
6	Financial Services related to account.	41.97	VI
7	Increase in Compliance	30.70	VII

Garrett ranking is used to rank factors for the major reasons for Revenue recognition under GST as it scores the highest of 62.85 percentages. On the contrary, in ‘financials’ revenue is recognized when goods are sold, or services are rendered. The next scores 60.25 percentages in Input tax credit leveraged and de-leveragedUnder GST, 50% of the CENVAT credit availed against inputs, input services, and capital goods is to be reversed which leaves them with a position of reduced credit of 50% on capital goods thereby increasing cost of capital. Which has the least score of 30.70 percentages is the Increase in Compliance in GST implications and challenges on banking sector. Transaction fees in financial services such as credit card payments, fund transfer, ATM transactions, processing fees on loans etc is increased to 18% tax bracket in the new GST regime. Individuals will have to pay Rs 3 more for every Rs 100 paid as charges/fees for banking transactions.

Table: 2

Impact of GST in customers on Banking Sector

Statements	**SA**	**A**	**N**	**D**	**SD**	**Total**	**Weighted average**
Debit and credit card charges increased	32	38	54	6	10	140	3.542
Each branch of Banks must have separate registration	56	30	39	8	7	140	3.857
supply identification	73	36	12	10	9	140	4.1
Dependency upon CGST and SGST	54	35	36	10	5	140	3.878
transaction between banks is not free	64	56	10	4	6	140	4.2
Input Tax Credit in GST	56	66	8	6	4	140	4.171
Growth of transaction	32	73	14	12	9	140	3.764
Distinctiveness in services	44	45	34	12	5	140	3.792

In this table, the main impact of GST in customers on banking sector on transaction between banks is not free of GST with first rank which has the highest mean score of 4.2. GST on services provided without consideration to other than a related or distinct person. Therefore, GST won't be levied on free banking services such as ATM withdrawals or cheque book issuance. Another impact of customers in banking sector on GST supply identification, GST is a consumption based destination tax. the revenue of the government has increased which has the second rank with mean score of 4.171. This has the least mean score of 3.542 Debit and credit card charges increased. Transaction fees in financial services such as credit card payments, fund transfer, ATM transactions, processing fees on loans etc is increased to 18% tax bracket in the new GST regime. The hike in the tax rate means, individuals will have to pay Rs 3 more for every Rs 100 paid as charges/fees for banking transactions.

SUGGESTION

- ❖ All the banks in India are registered under GST at each state, each branch. The transaction is done through the GST act. The banks have to file multiple returns state-wise, numerous audits and assessments; particularly in a situation where banks have the existence in about all state and union territory of the country and there are large number banks located in each city and locality in the state. With loads of branches, the entire harmonization and integration of each state regional bank shall also be a challenge.
- ❖ The transaction between two branches of the same bank located at two different states is taxable under GST which is called integrated goods and service tax (IGST). When there are so many transactions from the different branches of the same bank it will be difficult for the banks to track the transaction and the transaction will be cumbersome.

- GST has made a uniformity in the entire good and service tax in our country, but the tax imposed on various products and services of the banks are much higher than earlier. If comes to a conclusion that banking services and products were costlier before.

CONCLUSION

The upshot of the study concludes that GST is a risky and challenging initiative taken by the government for sustainable banking and a uniform tax is imposed on all the products and services. The issues faced by the banking sector a highlighted in this paper in order to understand how challenging the implementation of GST in the banking sector was. The banks have to register in each state they operate in. All the services are provided with the same tax rate of 18% except deposits which is exempted from tax and services like ATM withdrawals, input tax credit, cheque, loans, investments have a negative impact after the implementation of GST which made all these services very expensive to the customer, but it generates a large amount to the Indian banking sector. And also, it is said that Rs.3 more for every Rs.100 paid for banking transaction which contributes a huge amount to the economy. The transaction between two branches of the same bank was not subject to any tax. but under GST tax regime interstate supply of goods and services or both between the same bank's two branches located in two states are taxable which is known as integrated goods and service tax. Under GST Law

for banking and other financial services shall be the location of the recipient of services on the records of the supplier of services. GST law states that banks engaged in supplying goods and services by way of accepting deposits, extending loans must reverse 50% of the eligible input tax credit on inputs, capital goods, and input services. The banking sector has now settled with the current tax rates and adopted the changes and runs smoothly.

This paper concludes that GST is a challenging initiative taken by the government for sustainable banking and uniform tax is imposed on all the product and services. At the time of implementation of GST all the sector has facing many problems even banking sector also but it will resolve all the short coming of prevailing in the existing tax regime. it has remarkable impact on the Indian economy. But in the banking sector it increases the service tax rate up to 18% therefore the cost of services slightly higher for end customers, causes in comfort to customers of bank.

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