Impact of Goods and Services Tax (GST) on Indian Economy (With Special Reference to Banking and Financial Sector)

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Abstract

The introduction of GST in India is a substantial shift from the current tax regime. GST stands for 'Goods and Services Tax' implemented by the Government of India since 1st July, 2017. GST was defined as a comprehensive consumption based tax levied upon manufacture, sale and consumption of goods as well as services which helped in transforming the country into one unified common market. Many inexplicit arguments were raised about GST after its implementation. It is expected that service sectors will have major impact of GST than the manufacturing or trading sector. Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services are facing new challenges in current scenario. Owing to the nature and volume of operations provided by banks and NBFC such as lease transactions, hire purchase, related to actionable claims, fund and non-fund-based services etc. The research paper will throw light on how Goods and Services Tax (GST) would help in reducing the existing complexity of taxes in India as it subsumes Value Added Tax (VAT), Excise Duty, Service Tax and Sales tax. The first part of the paper is the introductory part. Second part of the paper will discuss the effect of GST on Indian economy. Finally the last section will discuss the impact of GST on Banking and Financial Sector and focus on conclusion part of the paper.

Keywords: GST, Economy, VAT, Banking and Financial Sectors, NBFC.

Introduction

On 1 July, 2017 India ushered in the biggest post-independence tax reform with euphoria coupled with anxiety. It remains to be seen what impact the Goods and Services Tax (GST) will have on the Indian economy in the long run. While much has been said and written about its impact on corporate entities, it would be interesting to look at key areas for consideration during the course of business under an employer-employee scenario. GST is levied as a tax on supply of goods or services. Thus, the question arises whether GST can be levied on the provision of services by an employee to the employer. The GST law provides a specific exclusion of services rendered by an employee to an employer in the course of or in relation to his employment.

This paper deals with the implementation and impact of Goods and Services Tax (GST) in India. One country one tax has drawn the attention of various political parties, stakeholders, entrepreneurs, organised and unorganised business sector, media houses and investors. Union Finance Minister while finalizing GST rates hoped that it would transform third largest country of Asia into a single market and boost revenue through better compliance. The Goods and Services Tax is an all-inclusive tax that would not only affect manufactures, sale and consumption pattern of goods and services but also change whole economic environment of the country.

When learning about Goods and Service Tax, the first question that comes to the mind of almost every person is: What is IGST, CGST, UTGST, and SGST? On one hand it is stated that almost all indirect taxes are merged into a single tax called Goods and Services Tax, and on the other hand, it is stated that there will be four taxes as IGST, CGST, UTGST, and SGST. Petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST. The final consumer will have to bear only the GST charged by the last dealer in the supply chain. The tax collected would be divided between the Centre and the States in a manner that would be defined by the parliament, as per the recommendations of the GST Council.

Review of Literature

Before embarking upon the research study the researcher made an attempt to review the literature on the subject. Since the research area chosen for the study being 'taxation', the researcher reviewed the reports of the various committees appointed by the Government of India from time to time, Doctoral work undertaken in the field of taxation and contribution of tax experts by way of books and research articles. The important of them are presented here as under:

Chaurasia et al., (2018), Studied, "Role of Goods and Services Tax in the growth of Indian economy" and concluded that in overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

Akansha Khurana and Aastha Sharma, (2018), in their research paper on GST- A positive reform for Indirect taxation system concluded that the GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes.

Objectives of the Study

Objectives of GST are considered to be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would help mitigate the double taxation, leading to a common national market. The objectives of this paper are as follows:

(i) To cognize the concept of GST

(ii) To study the features of GST

(iii) To Study on Impact of Goods and Services Tax (GST) in Indian Economy.

(iv) To identify benefits and challenges of GST after implementation.

(v) To review its impact in the Banking and Financial Sector

Research Methodology

This study is intended to identify the present status of VAT, and the main reasons for switching over to GST. The study is descriptive in nature, based on simple random method. This paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on GST. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

Impact of GST on Indian Economy

This tax structure provided the Indian economy with a strong tax system which was much needed for economic development of the country. Thus, Goods and Services Tax had a **Positive Impact on the Indian economy** which is listed as follows:

(i) It introduced two-tiered, i.e., One-Country-One-Tax regime system by reducing a number of indirect taxes in India.

(ii) It subsumed all indirect taxes under a single roof at the Centre and State level.

(iii) A unified tax regime has led to corruption-free taxation system. Black money circulation system, normally followed by shopkeepers and traders, had been put to a mandatory check under GST.

(iv) It had brought down the prices of goods and services eventually leading to an increase in demand and consumption of goods and services. Thus, this system has proved to be beneficial for the people who were fed up of paying high prices.

(v) It not only widens the regime by covering goods and services but also makes it transparent. The customers now know how much taxes they are being charged and on what base.

(vi) Custom duties applicable on exports have been removed under this taxation system, therefore leading to an increased competitiveness of the nation in foreign markets by lowering the costs of transaction.

(vii) By improving the cost-competitiveness of goods and services, GST has free the manufacturing sector from cascading effect (i.e., tax on tax) of taxes.

(viii) A business- friendly environment has been created by increasing Tax-GDP ratio. Manufacturing costs are reduced due to lower burden of taxes on the manufacturing sector; hence prices of consumer goods have come down.

In the long run, GST will add to the government revenues by extending the tax base, thus providing a boost to the Indian economy.

There is some of the **Negative Impacts of Goods and Services Tax** on the Indian economy listed as follows:

(i) For consumers, GST did not prove to be beneficial since prices of some goods were decreased whereas; the prices of others were increased at a much higher ratio.

(ii) The Real Estate Market was affected badly by the introduction of GST. Home buying prices were increased by 10% hence leading to a reduction in the buyer's market by 15-20%.

(iii) Hike in the liquor and petroleum products under GST have been a major contributor to inflation in India.

(iv) Services like Telecom, Banking and Finance, Airline, etc., has now became expensive than before. Major drawback of the GST regime was the direct hike in service tax rate from 14% to 20-22%.The entire issue of telecommunication sector assumes a serious proportion when India's rural teledensity is not even 50%.

(v) Under the GST, there will be an increase in tax rates from 14.5% to a range between 29% and 43% for drivers who do not own cars and are associated with Ola and Uber cab-leasing programs.

(vi) E-commerce websites such as Flipkart and Amazon will have to collect TCS (tax collected at source) at a fixed 1% rate and pay this collection to the sellers listed on their websites. This is likely to impact prices and make online shopping more expensive.

(vii) If electricity is included under luxury goods in the future than it would be badly affecting the development of India.

GST is a long term strategy and a **positive impact** shall be seen in the long run i.e. 5 to 8 years. Being a new tax, it will take some time for the people to understand its implications.

Impact of GST on Banking and Financial Sector

Banking plays an important role in the financial life of a business, and the importance of banks can be seen from the fact that they are considered as to be the life-blood of Indian economy. Although no wealth is created by Bank and Financial Institutions, but their essential activities facilitates the process of production, exchange and distribution of wealth. In this way they become the effective partners in the process of 'Indian Economic' development and growth. Any changes in operations and procedures in this sector will bring corresponding changes in the development of business and industries which are more dependent on financial and non-financial services provided by banking sectors.

Issues and Impact Pertaining to the Provisions of GST on Banking and Financial Sector

(i) **Widespread Number of Branches, Registration a Hassle:**

Currently, a NBFC, Banks with pan-India operations can discharge its service tax compliances through a single 'centralized' registration. However, under GST, such Banks/ NBFCs would need to obtain a separate registration for each state where they operate.

In addition to registration, compliance burden about filing of returns has also increased substantially -in terms of the periodicity of returns, number of return formats and level of details required in these returns.

(ii) **Assessment and Adjudication Made Bothersome:**

The assessment would be done by the respective state regulators under which the respective branch is registered. Now, every registered branch of banks and NBFCs must justify its position on chargeability in the respective state and reason for utilizing input tax credit in different states.

As under GST, more than one adjudicating authority will be involved, each authority may hold a different opinion on the same underlying issue. This contradiction in opinion will prolong the adjudication process. Currently, a taxpayer is adjudged by a single adjudicating authority on an issue involved. Under GST different adjudicating authority may take a different view on the same issue. Clearing up and dealing with the difference of opinion provided by the different adjudicating authority would be difficult.

(iii) **Account Linked Financial Services:**

The place of supply will be the location of the recipient of services on the records of the supplier of services.

In the digitized and centralized scenario prevailing in India identifying the state of location of service recipient will be quite difficult. In cases where the service recipients like professionals, manufacturers, traders and other workers often shift from one place to other in search of better opportunities, the service provider may have different address namely permanent address, current address, the address of communication and KYC address.

(iv) **Non-Account Linked Financial Services:**

The place of supply of service here would be the location of service provider. This will again hit such companies which are widespread in remote locations to establish their presence but operate and transact from a back office located in some other state.

(v) **Actionable Claims:**

Actionable claims do not constitute as a service under Service Tax, and hence no tax is payable under the current regime. Under GST actionable claims are now included in the definition of supply of goods. Services provided from bills discounted to securitization will now be taxed as an effect B2C and B2B majorly.

(vi) **Place of Supply of Goods and Services:**

As per section 6(13), in the case of banking and other financial services (BOFS), the place of supply shall be the 'location of the recipient of service' on the records of supplier of services.

Under such circumstance determining point of supply at each stage is very cumbersome. In order to determine the GST, it would be necessary to determine the place of receipt of supply of service and place of supply of service. It is possible that actual recipient of such services may be different offices/ plants of the customer situated in different States and therefore, there could be a doubt as to whether each time, the bank would be required to capture the location of the recipient of service for each transaction.

(vii) **Invoicing:**

Section 25 of the GST Law requires uploading of invoices on Goods and Services Tax Network (GSTN).It means wherever the recipient of service wants to avail input tax credit, each and every document, where under certain fee or commission or charges have been charged and on which GST is levied, is required to be uploaded electronically on the GSTN by the service provider. It is a fact that banks do not issue commercial invoices for every service rendered. It would practically be a very difficult task to issue invoices for such small amounts and uploading them on GSTN.

Positive Impact of GST in Banking and Financial Sector

(i) Bank will be able to set off their GST liabilities against credit received on purchase of goods.

(ii) Banks do not get input tax credit of State VAT paid on any goods procured by them. As all these indirect taxes will be subsumed in GST, banks will be able to take credit of GST paid on procurement of goods as well.

(iii) Under the existing CENVAT mechanism, banks are eligible to take partial credit of excise duty and service tax paid on procurement of qualifying goods and services which are used for provision of output service.

(iv) Input tax credit is not allowed as per current CENVAT rules. But under GST regime input tax credit will be allowed which would be used by a bank for making outward supply.

Negative Impact of GST in Banking and Financial Sector

(i) Due to registration of all location many banks and financial institutions may be in for a lot of trouble as they could just see the complexity in paying taxes increase under the GST. All the bank need to register for their all office location.

(ii) They have to maintain separate books of account to have a control for all input tax credit and utilized and unutilized credit.

(iii) Complying with the requirements of reverse charge and partial reverse charge mechanism would add to further compliance costs.

Conclusion

To conclude the above, the implementation of GST had played an important role in the growth of

Indian economy. A uniform and rational taxation system in India would lead to lesser disruptions in the market economy and more efficient distribution of resources within the industry in the near future. The impact of GST on Banks and NBFCs will be such that operations, transactions, accounting and compliance will need to be reconsidered in its entirety. Apart, it would also lead to an increase in Gross Domestic Product (GDP) and exports of the country enhancing economic welfare and returns to the factors of production, i.e., land, labor and capital. Thus, Finance Minister, Arun Jaitley at GST launch event in the Parliament rightly said that 'Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker sections'.

Banking sectors face a can of worms in terms of the manner of transacting business, customer profiles, services matrix, IT systems and operation to capture the data at both front and back end. IT systems will need to be more vigilant in terms of serving the purpose of solving the complexity related to GST compliance and procedures at a higher volume.

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