CHAPTER-1

INTRODUCTION

What is GST Definition of Goods & Services Tax

Taxpayers can be taxed in two forms: through direct taxes such as income tax and road tax or through indirect taxes such as sales and services taxes. Direct taxes tend to bring to realization to the tax payers the burden of paying tax since taxpayers are required to declare their income and pay tax accordingly. However indirect taxes use another approach, the amount of tax is already accounted for and embedded within the selling price and therefore taxpayers do not usually realize they are being taxed. Goods and Services tax (GST) is one type of indirect taxes. GST is also known as value added tax (VAT).

GST is a broad based consumption tax. Many developing and emerging economies have been transforming their tax revenue bases by progressively moving from direct taxes to consumption taxes such as GST in recent years. GST is known as a consumption tax since it is borne by the end user/consumer and therefore is not intended to add costs to the business. It is a multi-stage tax collected on sales at all stages of the supply chain, production and distribution. It is a tax on the value added at each stage of the chain, this is basically the difference between the tax on the sales (output tax) and the tax on the purchases (input tax).

Goods and services tax in Malaysia (GST) or value added tax may be implemented by the Malaysian government somewhere in the third quarter of 2011. The purpose of its introduction will be to replace the current sales and service tax that has used in Malaysia over the last few decades.

WHAT GOODS GST COVERS

As proposed by our dear government, GST covers all types of goods & services sold to Malaysian & non-Malaysian residents (therefore consumers) except for a common commodity such as paddy, rice, vegetables, meat, chicken and fish and certain services such as healthcare, education, saving and current accounts, ATM cards and life insurance. The goods and services concerned will be standard rated.

This goes to mean: Whenever you walk into your favorite hypermarket with the family to get some groceries in the future, you will be charged additional ~% (the proposed additional 4%) on top of your bill except for certain controlled items.

WHO IS LIABLE TO TAX

Small businesses will most probably be exempted from GST. The person to be registered:

- Sole proprietor (individual)
- Incorporated/unincorporated body of persons
- Corporation / company
- Association not for gain
- Welfare organization / trust
- Local authority and certain public authorities

Zero-rated and exempted items

The Government announced recently that up to 40 basic goods and services will be exempted or zero-rated. Exempted and zero-rated items will have a 0% GST rate. However, the producer of zero-rated items can claim the GST paid on inputs in the production of that item, like overheads and raw material costs. The supplies and services exempted from GST or given a zero-rating include:

a. agricultural products such as fresh fruits and vegetables;

b. basic foodstuff such as rice, sugar, table salt, plain flour and cooking oil;

c. livestock and poultry supplies including fresh and frozen meat;

d. fresh and salted eggs and fish;

e. the first 200 units of electricity supply for domestic users;

f. the first 35 cubic metres of water supply for domestic users;

g. private education services;

h. private healthcare services;

i. public transportation systems, such as KTM, LRT, ERL and monorail services;

j. other transport services such as express bus, workers bus and school bus;

k. toll highways;

l. residential property;

m. land for agricultural purposes; and

n. General use land such as burial grounds.

ADVANTAGES OF APPLICATION OF VAT.

i) Eliminates cascading effects

The VAT is preferred because the VAT minimizes distortions. The simple excises or the turnover taxes results in the unintended effect of (i) taxing an output (together with its input content) more than once; as well as (ii) applying a tax on the earlier paid input tax leading to cascading. It causes producers to move their capital or resources away from the production of one output to another one which does not suffer from cascading. The VAT, because it gives credit for input tax earlier paid, avoid the distortion as represented by misallocation or redirection of resources from one economic activity to another. Therefore, it does not alter producers' decisions to produce particular commodities which, in general, should reflect the demands from consumers. However, for this benefit to occur, the VAT must give credit for raw materials and capital goods.

ii) Eases administration

Although there are feasible options limiting the impact of cascading, the utility of multipoint VAT goes much beyond that. Arresting cascading could be considered important to a regime of VAT. Nevertheless, the institution of VAT in fact should be conceived also as an instrument of tax administration – an administration that checks evasion through a self monitoring feature, and an account based audit system that is regarded as superior to the system of physical verification. The latter already having fallen into disrepute for causing distress to tax filer's needs to be eventually abandoned as its positive impact on revenue yield remains questionable. An account-based audit should not only tighten the tax net but raise revenues through a wider acceptability of a tax administration in the public eye.

iii) Improves International competitiveness

Since VAT has the potential for eliminating cascading, it is possible to design the VAT in a manner that will ensure that exports are free from any tax burden (zero-rating). Further, such adjustments under the VAT structure are also WTO consistent. As a result the competitiveness of exports in international markets is enhanced. Even though exports are generally exempt from sales tax and the burden of input tax embedded in the exports is sought to be eliminated through the duty drawback mechanism, nevertheless, the process is cumbersome and the effect is not fully realised. As export competitiveness can be adversely influenced by then tax factor, the capacity to zero rate easily and accurately is an important aspect of the VAT.

iv) Imparts Transparency

Another positive aspect of the VAT is its simplicity and transparency, which commodity taxes usually lack. The VAT tends to collect the quantum of tax payable at every stage of transaction. Both producers and consumers, who ultimately bear the tax burden, are fully aware of the tax liability, which is not as easily ascertainable in other forms of commodity taxation.

v) Buoyant Source of Revenue

When faced with chronic budget deficits and growing expenditures, governments have been turning to tax reform as a way to raise revenues. Governments seek sources that are income elastic and not sensitive to changes in prices of particular goods or income sources. Since the VAT permits a relatively larger coverage in as much as it is possible to extend it to value addition at all stages in the production-distribution chain, the potential for raising resources efficiently is generally higher.

vi) Goodbye to Tax on Tax

VAT is the only tax that offers positive alternatives to the negative impact of indirect taxation. It is an accepted fact that commodity taxes create severe cascading effect as the taxes levied at earlier stages of production and distribution get taxed again and again at subsequent points. Consequently, instead of paying taxes on the value addition by a manufacturer, wholesaler or retailer, tax is paid on an inflated value, which includes taxes already paid at earlier stages. Such anomalies escalate prices and encourage vertical integration, where the manufacturer himself tries to wholesale and retail the goods. Vertical integration has been responsible for recession and unemployment particularly in developing countries. VAT has an inbuilt device for reducing the cascading effect by restricting the levy to actual value addition. It encourages growth by confining tax burden to the net economic contribution of the taxpayer. Moreover, since the Capital Investment also gets tax relief. VAT can accelerate economic growth by encouraging modernization and replacement.

OTHER ADVANTAGE:

i. Replacing the cascading effect [tax on tax] created by existing indirect taxes.
ii. Tax incidence for consumers may fall
iii. Lower transaction cost for final consumers
iv. Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present
v. May widen tax base
vi. Increased tax collections due to wide coverage of goods and services.

DISADVANTAGES OF GST

Some opposition arising from flaws within the system whereas other arising from problems that will arise in the implementing process. A few of these criticisms are:

There comes a trade off when choosing between a single rate and a multiple rate GST. If multiple tax rates are used by lowering the tax rate on necessities and imposing high rate in luxury goods the administration cost may increase and lead to reduced revenue. Conversely if government uses a single rate on a broader base which is what the government is proposing it will reduce the administration costs and increase revenue but at the same time affect the poorest in the country as they consume a large amount of the untaxed goods that are brought into the tax net. This system disregards the differences in expenditure pattern and differences between high level and lower income earners in the country. It is not easy to set the tax rate at a standard rate without affecting equity and social welfare in the country.

In light of the above it is noted that Malaysia is a developing nation and hence has a significant percentage of informal sectors. In order to combat the problem of the heavy burden faced by the informal sector, the government has proposed different rates, i.e. a large number of goods will be exempt or zero rated. This move may shift expenditure on to informal sector products increasing their demand and thus leading to a higher price yet avoiding paying tax. Whereas the formal sector producer of a close substitute may get lower profits and bear tax. This affects the equity in the country and causes only greater disparity between the poor and the rich, and lead to reduced social welfare.

Furthermore it is important to mention GST is a broad-based tax and exemptions and zero ratings must be scrutinized very carefully. Too many exemptions would result in the erosion of the tax base.

There is a need for efficient and effective computerization of the relevant department which will be administering the tax. The change will obviously require a computerized system that is tailored to the profile of the business and the Malaysian GST law. GST implementation is not as simple as merely activating accounting software's GST module. The transition will be costly. In addition much more administrative and documentation requirements arise from the introduction of GST. Most small businessmen do not have good accounting systems therefore compliance costs for the general public will arise. And inadequate information can have adverse effects for taxpayers since they may not be able to determine the exemption threshold for the businesses.

Furthermore lack of documentation will make it difficult for the government to perform audits and investigation. There is need for the administrators to be equipped with trained personnel to operate the computerization system. The personnel should also be knowledgeable about the GST since in the initial period, the public which does not very familiar with the new tax system will need extra guidance from the administrators. Training costs need to be taken into account. There is a great need to also educate the public on GST operations and provide support during the transition from sales tax to GST especially on treatment of various purchases just before the implementation. With the scheduled implementation of the tax in 2011, there are many hindrances that may not be combated in time.

DIFFERENT BETWEEN SALES TAX AND SERVICE TAX.

1) **Service Tax** is a form of indirect tax imposed on specified services called "taxable services". Service tax cannot be levied on any service which is not included in the list of taxable service. Service Tax was introduced in Malaysia in 1975.

   Sales tax is a tax collected by all retailers and certain service providers when they make taxable retail sale. In other words, a percentage tax on the selling price of goods and services. It is imposed by state and local governments on transactions that occur within their jurisdictions.In Malaysia, the Sales Tax Act 1972 came into force on 29 February 1972.

2) **Scope of Tax**

The **Service tax** Act, 1975 applies throughout Malaysia with the exception of Labuan, Langkawi, and the Joint Development Area. As such, taxable services provided by taxable persons located outside Malaysia would not be liable to service tax.

Sales Tax Act 1972 applies throughout the Federation, excluding the free zones, licensed warehouses, licensed manufacturing warehouses and joint development area. With regard to Langkawi and Labuan, special provisions have been enacted in the Sales Tax Act 1972 to accommodate their free port status.

3) Basis of Taxation

The principal legislation governing service tax is the **Service Tax** Act, 1975. The Act provides that service tax shall be charged on and paid by any taxable person who carries on a business of providing taxable services. A 5% service tax is chargeable on the value of taxable services provided by a taxable person, except for exported taxable services (which are exempt from tax).Exported taxable service has been defined as “service supplied for and to a person in a country other than Malaysia (excluding Langkawi, Labuan and free other than insurance services zones), provided that the service is not supplied in connection with goods or land situated in Malaysia and the person is not in Malaysia at the time the service is performed.”

The principal legislation governing **sales tax** is the Sales Tax Act, 1972. Sales tax is a form of consumption tax levied on a wide variety of goods manufactured in Malaysia, or imported intoMalaysia for local consumption. Conceptually, sales tax is a single stage tax. In respect of imported goods, sales tax is levied on the value of the goods (as determined under the Customs (Rules of Valuation) Regulations, 1999) plus the import duty payable. In respect of locally manufactured goods, the manufacturer is required to charge sales tax on the sale of the goods for local consumption. Sales tax is levied by the manufacturer on the sale value of the goods, which refers to an independent arm’s length price. Generally, the sales tax rates range from 5% to 25%. Specific rates of sales tax are only imposed on certain classes of petroleum products.

HISTORY

Formation

The reform of India's indirect tax regime was started in 1985 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Prime Minister P V Narasimha Rao and his Finance Minister Manmohan Singh, initiated early discussions on a Value Added Tax (VAT) at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the Finance Minister of West Bengal, Asim Dasgupta to design a GST model.

The Ravi Dasgupta committee which was also tasked with putting in place the back-end technology and logistics (later came to be known as the GST Network, or GSTN, in 2015). it later came out for rolling out a uniform taxation regime in the country. In 2002, the Vajpayee government formed a task force under Vijay Kelkar to recommend tax reforms. In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission.

After the defeat of the BJP-led NDA government in the 2004 Lok Sabha election and the election of a Congress-led UPA government, the new Finance Minister P Chidambaram in February 2006 continued work on the same and proposed a GST rollout by 1 April 2010. However, in 2011, with the Trinamool Congress routing CPI(M) out of power in West Bengal, Asim Dasgupta resigned as the head of the GST committee. Dasgupta admitted in an interview that 80% of the task had been done.

In the 2014 Lok Sabha election, the Bharatiya Janata Party-led NDA government was elected into power. With the consequential dissolution of the 15th Lok Sabha, the GST Bill – approved by the standing committee for reintroduction – lapsed. Seven months after the formation of the Modi government, the new Finance Minister Arun Jaitley introduced the GST Bill in the Lok Sabha, where the BJP had a majority. In February 2015, Jaitley set another deadline of 1 April 2017 to implement GST. In May 2016, the Lok Sabha passed the Constitution Amendment Bill, paving way for GST. However, the Opposition, led by the Congress, demanded that the GST Bill be again sent back for review to the Select Committee of the Rajya Sabha due to disagreements on several statements in the Bill relating to taxation. Finally in August 2016, the Amendment

Bill was passed. Over the next 15 to 20 days, 18 states ratified the Constitution amendment Bill and the President Pranab Mukherjee gave his assent to it.

A 21-member selected committee was formed to look into the proposed GST laws. After GST Council approved the Central Goods and Services Tax Bill 2017 (The CGST Bill), the Integrated Goods and Services Tax Bill 2017 (The IGST Bill), the Union Territory Goods and Services Tax Bill 2017 (The UTGST Bill), the Goods and Services Tax (Compensation to the States) Bill 2017 (The Compensation Bill), these Bills were passed by the Lok Sabha on 29 March 2017. The Rajya Sabha passed these Bills on 6 April 2017 and were then enacted as Acts on 12 April 2017. Thereafter, State Legislatures of different States have passed respective State Goods and Services Tax Bills. After the enactment of various GST laws, Goods and Services Tax was launched all over India with effect from 1 July 2017. The Jammu and Kashmir state legislature passed its GST act on 7 July 2017, thereby ensuring that the entire nation is brought under an unified indirect taxation system. There was to be no GST on the sale and purchase of securities. That continues to be governed by Securities Transaction Tax (STT).

LAUNCH

The GST was launched at midnight on 1 July 2017 by the President of India, and the Government of India. The launch was marked by a historic midnight (30 June – 1 July) session of both the houses of parliament convened at the Central Hall of the Parliament. Though the session was attended by high-profile guests from the business and the entertainment industry including Ratan Tata, it was boycotted by the opposition due to the predicted problems that it was bound to lead for the middle and lower class Indians. It is one of the few midnight sessions that have been held by the parliament - the others being the declaration of India's independence on 15 August 1947, and the silver and golden jubilees of that occasion.[13] After its launch, the GST rates have been modified multiple times, the latest being on 22 December 2018, where a panel of federal and state finance ministers decided to revise GST rates on 28 goods and 53 services.

Members of the Congress boycotted the GST launch altogether. They were joined by members of the Trinamool Congress, Communist Parties of India and the DMK. The parties reported that they found virtually no difference between the GST and the existing taxation system, claiming that the government was trying to merely rebrand the current taxation system.[citation needed] They also argued that the GST would increase existing rates on common daily goods while reducing rates on luxury items, and affect many Indians adversely, especially the middle, lower middle and poorer income groups.

TAX

Taxes subsumed

The single GST subsumed several taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services.

India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax/destination-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

HSN code in GST TAX RATE

HSN is an 8-digit code for identifying the applicable rate of GST on different products as per CGST rules. If a company has turnover up to 1.5 Crore in the preceding financial year then they need not mention the HSN code while supplying goods on invoices. If a company has turnover more than 1.5 Crore but up to Cr then they need to mention the first two digits of HSN code while supplying goods on invoices. If turnover crosses 5 Cr then they shall mention the first 4 digits of HSN code on invoices.

Rate

The GST is imposed at variable rates on variable items. The rate of GST is 18% for soaps and 28% on washing detergents. GST on movie tickets is based on slabs, with 18% GST for tickets that cost less than Rs. 100 and 28% GST on tickets costing more than Rs.100 and 5% on readymade clothes.[23] The rate on under-construction property booking is 12%.[24] Some industries and products were exempted by the government and remain untaxed under GST, such as dairy products, products of milling industries, fresh vegetables & fruits, meat products, and other groceries and necessities.

Checkposts across the country were abolished ensuring free and fast movement of goods.

The Central Government had proposed to insulate the revenues of the States from the impact of GST, with the expectation that in due course, GST will be levied on petroleum and petroleum products. The central government had assured states of compensation for any revenue loss incurred by them from the date of GST for a period of five years. However, no concrete laws have yet been made to support such action.

GST council adopted concept paper discouraging tinkering with rates.

E-Way Bill

An e-Way Bill is an electronic permit for shipping goods similar to a waybill. It was made mandatory for inter-state transport of goods from 1 June 2018. It is required to be generated for every inter-state movement of goods beyond 10 kilometres (6.2 mi) and the threshold limit. It is a paperless, technology solution and critical anti-evasion tool to check tax leakages and clamping down on trade that currently happens on a cash basis. The pilot started on 1 February 2018 but was withdrawn after glitches in the GST Network. The states are divided into four zones for rolling out in phases by end of April 2018.

A unique e-Way Bill Number (EBN) is generated either by the supplier, recipient or the transporter. The EBN can be a printout, SMS or written on invoice is valid. The GST/Tax Officers tally the e-Way Bill listed goods with goods carried with it. The mechanism is aimed at plugging loopholes like overloading, understating etc. Each e-way bill has to be matched with a GST invoice.

Transporter ID and PIN Code now compulsory from 01-Oct-2018.

It is a critical compliance related GSTN project under the GST, with a capacity to process 75 lakh e-way bills per day.

Intra-State e-Way Bill

The five states piloting this project are Andhra Pradesh, Gujarat, Kerala, Telangana and Uttar Pradesh, which account for 61.8% of the inter-state e-way bills, started mandatory intrastate e-way bill from 15 April 2018 to further reduce tax evasion.[30] It was successfully introduced in Karnataka from 1 April 2018.[31] The intrastate e-way bill will pave the way for a seamless, nationwide single e-way bill system. Six more states Jharkhand, Bihar, Tripura, Madhya Pradesh, Uttarakhand and Haryana will roll it out from 20 April 18. All states are mandated to introduce it by May 30, 2018.

Reverse Charge Mechanism

Reverse Charge Mechanism (RCM) is a system in GST where the receiver pays the tax on behalf of unregistered, smaller material and service suppliers. The receiver of the goods is eligible for Input Tax Credit, while the unregistered dealer is not.

In the notification dated on 29th January 2019, the Indian government has finally implemented the RCM (reverse charge mechanism) which started from 1 February 2019 as per the GST acts and amendments. Also to note that the up to INR 5000 exemptions will be removed effectively.

GOODS KEPT OUTSIDE THE GST

Alcohol for human consumption.

Petrol and petroleum products (GST will apply at a later date) viz. Petroleum crude, High speed diesel, Motor Spirit (petrol), Natural gas, Aviation turbine fuel.

GST Council

GST Council is the governing body of GST having 33 members.It is chaired by the Union Finance Minister. GST Council is an apex member committee to modify, reconcile or to procure any law or act or regulation based on the context of goods and services tax in India. The council is headed by the union finance minister Arun Jaitley assisted with the finance minister of all the states of India. The GST council is responsible for any revision or enactment of rule or any rate changes of the goods and services in India.

Goods and Services Tax Network (GSTN)

The GSTN software is developed by Infosys Technologies and the Information Technology network that provides the computing resources is maintained by the NIC. "Goods and Services Tax" Network (GSTN) is a nonprofit organisation formed for creating a sophisticated network, accessible to stakeholders, government and taxpayers to access information from a single source (portal). The portal is accessible to the Tax authorities for tracking down every transaction, while taxpayers have the ability of connect for their tax returns.

The GSTN's authorised capital is 10 crore (US$1.4 million) in which initially the Central Government held 24.5 percent of shares while the state government held 24.5 percent. The remaining 51 percent were held by non-Government financial institutions, HDFC and HDFC

Bank hold 20%, ICICI Bank holds 10%, NSE Strategic Investment holds 10% and LIC Housing Finance holds 11% .

However, later it was made a wholly owned government company having equal shares of state and central government.

Benefits of GST

For business and industry

- Easy fulfilment of tax duty.
- Reduced spill over in finance.
- Increases competitiveness and industrial development. For Central and State Governments
- Taxation and its administration made simple
- Better controls on the outflow of money from India.
- Consolidation of the tax base and easy maintenance of book of record.
- High revenue and efficient system for collection of tax. For the consumer
- Single and transparent tax proportionate to the value of goods and services.
- Reduction in overall prices of most of the commodity.

10. Implementation Strategy

India achieved VAT system to accomplish the goal of economic development. GST, a modified version of existing VAT can make functional. The major setback existing GST for implementation is that it have to be approved by every state existing in India, else the total exertion on GST will be a disaster. A well-formulated one point and one type of taxation for goods and service are required in India, moreover, the formulated taxation has to be exercised by the Central, State and Interstate where lies the complexity. In order to bring uniformity,

it is necessary to bring Dual GST system like Dual VAT system followed recently in India. The major beneficial of dual GST is that; Uniform taxation can be practiced, low charges comparable to VAT, better taxable system, better tax return and registration system. To put GST into practice, PAN (Permanent Account Number) should be allotted to every individual citizen of India. The impact of GST on economic growth can be well recognized, provided few goods and service have to be exempted from the GST like agricultural goods, health, education and financial services, this is because it would hit the poor people in India to attain basic amenities higher cost. Export is zero rated under GST, this would direct to economic success such as India as more than 25% GDP lays on export. GST is exercised on the import of goods and services also high rate is charged for the same. The dealer in the importing state has to declare every import made monthly and its return within prescribed time. This brings dealers purchasing within and from outside the state pay same tax. Therefore, this model will be more effective when implemented with pre-payment of taxes.

CHAPTER-2

INTRODUCTION OF BANKING SECTOR

The banking sector is the section of the economy devoted to the holding of financial assets for others, investing those financial assets as leverage to create more wealth and the regulation of those activities by government agencies.

Holding of Financial Assets

This is the core of all banking, and where it began—though it has expanded far beyond the days of holding gold coins for Holy Land pilgrims in exchange for promissory notes. A bank holds assets for its clients, with a promise the money may be withdrawn if the individual or business needs said assets back. Avoiding devastating bank runs that could destroy the sector as a whole is why banks are required to maintain at least 8% of their book values as actual money.

Using Assets as Leverage

Traditionally, banks leverage the money in their vaults as loans, earning money from the interest rates charged on those loans. The great contradiction of banking is that almost all of a bank's actual money is nowhere near its vaults, meaning that its true value is only paper, yet that paper value is what grows the economy.

GST bill and being one step closer to implementation of the biggest tax reform in India since 70 years. GST is set to replace at least 17 federal and state taxes to implement a single and unified tax – Goods and Services Tax. The reason that our Hon’ble Prime minister Mr. Narendra Modi was vouching fervently for the bill to pass because it will help to increase at least 2% in the current GDP and that is a huge amount in itself, stemming India as one of the fastest growing economies in the world.

For long India's tax system had layers of direct and indirect taxes which added somewhere between 25% and 40% to the COGS. Currently, abolishing all the taxes in between, GST is pegged at between 18% and 20%, with only 8 months left to implement the same – a timeline that Mr. Narendra Modi has set for the rollout.

It is beyond doubt that all industries will get affected by this news. With a standard of 18% being speculated to being implemented, there will be some areas that the consumers may benefit and some places where it might not. Looking at banking and financial sector, one of the crucial sectors for consumers, one might say that it can get a bit expensive for the consumers. While today financial and banking services come with a ST of 14.5%, definitely with the implementation of GST at 18% – 20%, the services will get expensive for the consumer. Along with the taxes, comes the compliances that the banks and consumers need to follow. In IGST, the GST will be internally divided between SGST and CGST, hence, there might need to be a different set of processes and compliances required to do.

One of the major fears that consumers may have is that the interest of loans, foreign currency, retail services and trading in securities will fall under the scope of GST and if that happens, the cost for everything will increase fundamentally. Though banks have put forward their recommendation to not include these in the ambit of GST, it will be only time which will say if these recommendations will be accepted or no.

Banks on the other hand will be beneficiaries of this reform since all said and done, individuals and businesses deal with banks on a regular basis. Though if the operations are not streamlined and well – defined, there might be an increase in the operational cost which cannot be passed onto the customer. There will be care required while managing compliances along with a whole lot of services and also training of internal staff.

While GST has been claimed to the biggest reform in India, there needs to be some thought given to the banking and financial services since they are very crucial to the consumers and their investment pattern.

Goods and Services Tax (GST) is an indirect tax (or consumption tax) imposed in India on the supply of goods and services. It is a comprehensive multistage, destination based tax. Comprehensive because 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 tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. However, Petroleum products, alcoholic drinks, electricity, are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime.[citation needed] 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%, Post-GST, most goods are expected to be in the 18% tax range

The tax came into effect from July 1, 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Indian government. The tax replaced existing multiple flowing taxes levied by the central and state governments.

The tax rates, rules and regulations are governed by the GST Council which consists of the finance ministers of centre and all the states. GST is meant to replace a slew of indirect taxes with a federated tax and is therefore expected to reshape the country's 2.4 trillion dollar economy, but not without criticism. Trucks' travel time in interstate movement dropped by 20%, because of no interstate check posts

CHAPTER-3
RESEARCH METHODOLOGY

REGION OF RESEARCH

The geographical area of the research is Mumbai, Maharashtra. Mumbai is the financial capital of India and hence most of the financial sector companies have their headquarters in Mumbai. Thus Mumbai would be a good representative for the purposes of drawing conclusions.

RESEARCH DESIGN

The research would be descriptive, empirical as well as analytical. The design would be based on the objectives of the study and the hypothesis of the study.

Data in relation to provisions for taxing of financial services would be collected from the existing law. The data collected through the interviews and questionnaires will be subject to further statistical methods of analysis.

SAMPLING

All assessees, accountants and tax professionals related to the financial sector are the population. The different assessees, accountants and tax professionals selected - around 40 in number will form the sample. This sample of 40 individuals who will be interviewed and questionnaires will be sent to and who are located in Mumbai are selected based on purposive sampling. A larger sample size may not be practical since the questions to be answered are technical and hence need to be answered by technical people in the financial services sector. Such people who are

available to provide the response are few and hence the sample size is restricted to 40 also based on convenient sampling.

TOOLS FOR DATA COLLECTION

The study involves collection of both primary and secondary data. Primary data is being collected by using the interview schedule and structured questionnaire. The questionnaire before actual use is put through pilot testing. The difficulties identified in pilot testing are removed before finalizing the final questionnaire. This questionnaire will be distributed to the selected sample.

Secondary data is collected through existing legislations, proposed legislations on GST floated in public domain, published/unpublished reports on the GST impact in India and globally, various websites on GST and financial services,

DATA ANALYSIS

Data collected through interviews will be analysed qualitatively. Quantitative data will be subjected to Z test.

METHODS OF REPORTING

The data collected will be reported using tables, text, bar diagrams, graphs and pie diagrams for successful understanding.

UTILITY OF THE RESEARCH

A good tax system would ensure that the country's resources are utilized in an most advantageous manner and the country is competitive in the global trade. In this regard, GST in India would ensure that with seamless ITC the costs will come down for both the business

people and the consumers. It would lead to an increase in the GDP of the country and proficient use of all factors of production.

Further, financial services sector supplies average 50% of the total demand in an economy and contributes to almost 20% of the indirect taxes in an economy. Hence the study of the existing system with the pros and cons, the impact of GST on the said financial sector, the difficulties in administrative compliance in the sector and examination of views of accountants in this relation is pertinent.

Work Plan

I plan to complete my thesis work over the next 10-12 months, which shall broadly cover the following:

OBJECTIVES OF THE STUDY

- To understand the concept of Goods and Services Tax;
- To examine the features of Goods and Services Tax;
- To analyze the impact of GST on various industrial sectors.
- To provide information on Goods and Services Tax with respect to Export.
- To know the benefit of Goods and Services Tax to the economy, business and industry and consumer.

- To analyze the implementation strategy of GST in India.

CHAPTER-4

IMPACT OF GST ON BANKING SECTOR

After about a decade of extensive planning and careful crafting, came the historic declaration of introducing Goods and Services Tax (GST), replacing a multitude of central as well as statewide taxes. In common parlance, GST is a consolidated tax — centre and state levying taxes on a payer. The 1st of July, 2017 would break the seven decade long lacunae, delivering a complete overhaul of the Indian Taxation System. Under the previous tax system, direct and indirect taxes levied on goods and services fell between 25% and 40%, which have now been restructured between 5% and 28% for around 1200 goods and services.

There are some components; including commonly used consumables like milk, eggs, fruit, vegetables, meat, fish and chicken, legal documents (such as stamps, stamp papers and other utilities like printed books and newspapers); which have received complete GST exemption sale. On the other hand, several other services have witnessed a hike as compared to the collective taxes implied before enforcing GST. In a surprising turn of events, various services offered by the Banking and Finance sector are expected to fall under the latter associated with this new tax regime. Categorising these services, which were earlier taxed at 15%, along with telecom & IT and other such semi-essential goods, such as preserved foods, mineral water and notebooks, financial transactions, will now fall under 18% GST. This hike of 3% means an increment of INR

3 on every INR 100 spent on financial transactions. However, it is important to note that this increment does not directly affect services related to commodities, such as gold and silver on which a concessional GST rate would be applicable.

This increment would not directly affect financial organisations since the operational cost would indirectly be remitted by organisations with a larger transaction flow. In this case, individuals would bear the burden of paying a little more to avail these services. Such a massive operational change would demand an intensive resource up-scaling, including training employees to be aware of the changes and rethinking their policy structure. It would be a daunting task, to say the least. A platter of concerns covers finance sectors' platform, enforcing them to be well-equipped to deal with them.

Branch Registration – A New Hassle

A painstaking one-time process that is now inevitable, contrary to a centralised registration of the Indian banks under the former tax regime reforms, demand a state-wise registration of all bank branches. This would considerably increase the initial workload as well as expenditure. Instead of two returns to be filed as a service tax assesse, given the nation-wide reach, most banks would now end up filing more than 60 monthly and annual returns, collectively.

This transformation directly authorises state regulators, with which the branch holds its registration, to conduct assessments regarding the branch's utilisation of GST. In addition to this, transactions between branches would also be considered taxable under this context. This means that a transaction between two branches of the same bank registered under different states would be taxed as the location of the supplied services changes. Technically, this 'self-service' tax would be difficult to track considering the volume of transactions that are carried out on a daily basis. Such complexity proves to be extremely difficult to overcome as banks continue appealing for amends in the current framework.

Let the Chase Begin

GST provides an important functional control as banks get to decide whether a transaction would fall under Central GST (CGST), State GST (SGST) or Integrated GST (IGST) bracket. This revamped registration compliance compels financial institutions to pinpoint the origin of operations for both individual and commercial consumers of financial services. For individuals, the registration for their banking and financial needs would be done at the state level where they are currently residing. It is difficult to manage these accounts knowing how commonly individuals change their state of residence while seeking better career opportunities.

Similarly, to ascertain a centralised location (state) of operations for an organisation providing services or products pan-India is an almost impossible task. This raises an array of concerns with respect to the operational compliance of financial organisations with multiple state authorities. Restructuring and maintaining the records of millions of individuals and organisations pose a challenge that would require careful planning in order to be executed to fruition.

It is a Long Road Ahead

Awaiting implementation, the Indian financial sector is in a fix regarding the renewed transaction handling, registration compliance, operations, and information systems, since GST implementation demands restructuring these components in their entirety.

All laid out straight, the implementation of GST will surely change the functioning of the Indian tax regime, especially for its financial institutions.

POSITIVE IMPACT:-

Goods and Services Tax, a strong taxation system was introduced on 1st of July in India.

Every product including aerated drinks, tobacco products, gold etc that was being imported or exported across the country was now committed to a new GST tax which ranged from 0% to 28%.

Impact of GST on Banking sector:-

Under GST, banks are expected to obtain individually separate registrations for every branch set up across the country. This is mainly pushing the banking employees from their comfort zones as there was single centralized registration concept for all the banks till now. This problem becomes even more complex being directly proportional to the enormous number of banks and their respective branches that exist in India.

With the advent of GST, the internal, as well as the external monetary transactions between two separate banks, is no longer free. This now comes with a small amount we are expected to pay at the time of a financial transaction.

In the name of GST, we now have two types of taxes – Central GST controlled by the central government and the State GST which is controlled by the state itself. With such types of GST, the entire protocols of the banking sector are changed in terms of the service they provide to their customers.

Point of supply identification offered to each customer holding an account in a bank, now have the luxury of transferring any cost to almost any part of India irrespective of the location of the bank the person has the account in.

Previously input tax credit was not allowed according to the CENVAT protocols. But with GST in its full charge, this input tax credit is granted to the banks, reducing the tax evasion during an external supply of funds.

In the course of GST, we now have the access for ensuring smooth business across India and its neighboring countries. With such exponential growth in business, a sudden increase in the demands of funds led to the growth in the number of transactions benefiting the banks. This lead to the overall advantage for the baking sector.

A bank provides a diversity of services to its customers: debit card, credit card, net banking etc. With the new rules and regulation for banking under GST, the IT department demanded the upgradation of every system, along with the ATM machines and transaction systems.

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.

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

– Securitisation 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 services.

The GST rate on banking services and services provided by the NBFCs has been raised from 15% to 18% with the execution of this reform from July 01, 2017 onwards. The GST impact on financial services may further be classified into the following sub-sections:

1. Network of branches to be registered separately

Before the implementation of GST, a bank or NBFC with operations spread across India could discharge its compliance on service tax through one 'centralised' registration. After GST regulation, these institutions will be required to get a separate tax registration for each of the states they work in.

As a destination-based tax, GST has a multi-stage collection system. In such a mechanism, the tax is collected at each stage and the credit of tax that was paid at the last stage is available as a set off at the subsequent stage of the transaction. This transfers the tax incidence to different entities more evenly, and helps the industry through improved cash flows and better working capital management.

2. Leveraged and de-leveraged Input Tax Credit

Earlier, banks and NBFCs had been majorly opting for the reversal of 50% of the Central Value Added Tax (CENVAT) credit that they avail against the inputs and input services, while the CENVAT credit on the capital goods was given without any reversal conditions. Under GST, the 50% of the CENVAT credit that was availed for inputs, input services and capital goods has been reversed. This leaves banks and NBFCs with a decreased credit of 50% on capital goods, and in turn raises the cost of capital.

However, this can be counterbalanced by the advantages posed by operating one’s business in the new taxation scenario. A unified domestic market can help with more opportunities for expansion and reduced production costs enhancing one’s profitability.

3. Evaluation and adjudication

The impact of GST on banking services and NBFCs will also be felt in terms of evaluation procedures. Service tax was assessed by the particular regulators in the state where a branch is registered. In addition, every registered branch of the concerned bank or NBFC had to validate its position for the chargeability in the respective state and provide a reason for utilising the input tax credit in various states.

The GST assessment will involve more than one assessing authority, and each of them may have a different judgement for the same underlying issue. Although such contradictions can prolong the decision-making process for the financial institutions, the adverse effects of evaluation by one authority can be offset through decisions made by another assessor.

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.

However, deeper analysis reveals that such an increase in cost should not be considered a negative GST impact on financial services sector. In the long run, banks will be able to transfer the advantage of input tax credit – enabled under GST – to the customers. Furthermore, services like fixed deposits (FDs) and other bank account deposits that were outside the circle of service tax will continue to remain outside the GST ambit.

A major advantage of GST on financial services and other sectors is that it is a transparent tax and has reduced the number of indirect taxes. It integrates different taxes and ensures that the tax burden is fairly divided between different entities involved in the system. In addition, GST is essentially technology based. The advanced software systems used in its calculation and filing works will reduce the chances of manual errors and will lead to better decision making.

Capital Float too experiences the effect of GST on banking and NBFCs. We find ourselves in the 18% tax bracket, and we maintain our statutory lending policies including low-interest rates and quick disbursement of funds. Taking into account the GST impact on financial services sector, Capital Float will continue to provide the best credit solutions to its clients, customized to adapt to the changes brought by GST on SMEs in various sectors.

NEGATIVE IMPACT:-

The introduction of GST in India is a substantial shift from the current tax regime. It is expected that service sectors will have a major impact on 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 will see major shifts from the current scenario.

Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund, and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

Under Model GST Law, the framework does not provide much benefits or consideration to banks and NBFCs on an understanding of the type of transactions made by them on a consistent and voluminous basis.

Some of the issues and impacts pertaining to the provision of GST Law have been discussed below.

1. Widespread number of branches; registration a hassle

Currently, an 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.

2. Input Tax Credit leveraged and de-leveraged

Currently, Banks and NBFCs majorly opt for the option of reversal of 50% of the CENVAT credit availed against inputs and input services whereas CENVAT credit on capital goods could be availed with no reversal conditions.

Under 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.

3. 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.

Issues related to revenue recognition under GST

1. 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 a different address namely permanent address, current address, the address of communication and KYC address.

2. Non-Account Linked Financial Services

The place of supply of service here would be the location of the 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.

3. 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.

CHAPTER-5
SUGGESTION

ACCOUNTS AND ADMINISTRATION

As GST stands today, transactions between two branches of same bank is set to trigger a tax, which could prove to be cumbersome. GST would require restructuring of accounting, administration and control mechanism in the IT systems and processes of banks to be able to maintain financial records of each State separately.

GST being levied on branch transactions could be cumbersome because of the enormous number of financial transactions being carried out.

SERVICES BY BANK

Some services by bank to a customer are centralized (Ex: Demat Account, Wealth Management services, bigger home loans etc.) while some others are localized to branches (Ex: Savings account, Personal loan, OD etc.)

Banks provide different types of services to customers like Debit Card, Credit Card, Internet banking, Cheque Clearance, NEFT, RTGS, IMPS, Funds Transfer, Demand Draft, Demat Account, Wealth Management services, home loans, Savings account, Personal loan, etc.

Bank Head office also provides services to branches which may become taxable under GST. The IT systems of banks need to be upgraded to meet all these requirements related to multiple registrations, determining point of supply of services, compliance needs and Input Service distribution.

Currently, the power to levy and collect Service Tax on all services is with the Centre. With the introduction of GST, the States would also be empowered to levy GST on services.

Accordingly, on the same activity, there would be two levies, namely Central GST (CGST) and State GST (SGST), levied and administered by the Central Government and State Governments respectively. For interstate supply of

Several activities of banks are currently exempt from service tax (Ex: Fund based activities like interest payable on deposits / savings bank accounts and loans disbursed) which would incur GST unless otherwise exclusively exempted.

It will be impossible for banks and finance institutions to value services provided by one branch to another and then pay GST on that.

PLACE OF SUPPLY OF GOODS AND SERVICES

In banking industry, it’s interesting to know the place of business.

Even though the person is having an account in a single location, he can do the transactions across globe through internet banking.

The account holder can use his mobile or laptop and can do transactions from anywhere.

A Customer having an account in Chennai may do the transaction from Delhi and can transfer money to persons from Kolkata having account in Mumbai. Here point of supply identification is very much required for taxation purpose under GST.

As per law even though it can be tracked it will be cumbersome tasks and determining point of supply of services would add significantly to the compliance cost.

Taking the example above, is it required to take the registration across India in each state and Union Territory to abide by the laws of each state and Union Territory.

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.

Example- Let a person X applied for a personal loan to PQR Bank.

PQR BANK DID THE FOLLOWING ACTIVITIES

♦ Initial verification is done by outsourced local agencies,

♦ Loan processing is done centrally,

♦ Disbursement done locally,

♦ Repayment done by net banking/ECS mandate.

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.

INVOICING

Section 25 of the Model Law requires uploading of invoices on Goods and Services Tax Network (GSTN) by 10th of the next month.

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.

Re-possession of Assets of Defaulters

As per existing law and practice, when a bank re-possesses assets from a defaulter of loan and sells the same, VAT is paid by the bank as a ‘dealer’ in terms of State VAT laws. Treatment of this under GST will be quite interesting, which need to be looked upon.

DIFFICULTIES TO BANKING INDUSTRY

All the bank need to register for their all office location.

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

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.

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

BENEFITS TO BANKING INDUSTRY

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

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.

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.

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 in the course of

GST Will help to reduce tax evasion. Under GST doing business will be easy. The increase in business will lead to additional demand of funds. Addition demand of funds will lead to increase in number of transactions in the bank as the business and current scenarios ask to go for digital transaction.

CHAPTER-6

CONCLUSION

The new Companies Act 2013 is a welcome step. It is more stringent and requires strict compliance by corporate sector. The non compliance or irregularity in compliances may attract heavy penalties. The Companies Act, 2013 marks a paradigm shift in India’s corporate law regime, and has far reaching implications for both domestic Indian companies and overseas investors with a presence in India. Some provisions, however, continue to remain inoperative and are likely to be made effective by the Indian government in due course. This piece makes it easier to understand the changes in the 2013 Act that affect multinational corporations having Indian companies or those looking to make investments in India.

GST will improve tax compliance, widen the tax base, remove existing unhealthy competition among states and restructure the burden in relation to taxation equitably amongst the manufacturing and services; Implementing GST will make sure uniformity of taxes across the states in India, regardless of place of manufacture or distribution in India, which is better option when compared to VAT and in terms of administration; GST would integrate the tax base and capable of allowing seamless flow of input tax credit along the value chain of goods and services, which will lead to reduced cost of overall goods and services existing. GST environment would lead to an improved disclosure of tax transactions, which may have a positive impact on direct tax collections also. The average tax burden on companies will fall which will reduce the costs of Indian goods and services in the international market which in turn boost Indian industrial standard and exports; it will tone down cascading and double taxation and enable compliance through the lowering of the overall tax burden on goods and services. India is a rich country, whose people are poor, Overall, if GST properly implemented with tax exemption for certain goods like agricultural commodities, it will result in increasing revenue at the Centre as the tax collection system becomes more transparent, making tax evasion problem vanish and leading to economic growth, helping Indian people regain the wealth lost within country.