A Study of GST on Banking And Insurance Services

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Abstract

GST is one of the most important tax reforms in India. Although in force in April 2010, it has been in force since July 1, 2017 due to political issues and conflicts of interest of various stakeholders. This report analyzes the impact of GST (goods and services tax) on India Banking and Insurance Department. This article started with a short description of the historical scenarios and the tax structure of Indian taxation. This report focuses on the impact of GST on banking and insurance.

Introduction

GST is a huge reform of India's indirect taxes. GST simplifies indirect taxes, reduces complexity and eliminates cascade effects. Experts believe that large and small companies will have a huge impact and the way the economy works will change. GST is a value-added tax that eliminates cascading or double-tax effects on the cost of sub-items and services in the value chain. GST affects the calculation of structure, incidence and indirect taxes, and brings about a comprehensive recovery of current tax legislation.

GST (Goods and Services Tax)

GST is a comprehensive object-taxing multi-level tax that is imposed on every level with added value in the life cycle of a product. To better understand this, let's look at each term: Expanded: GST now includes all indirect taxes. By introducing the national tax system nationwide, the tax rate will no longer be arbitrary. Multilevel: GST is charged at every stage of the supply chain where transactions take place. Added value: this is the process whereby the value of the product / service increases in each production phase,

Exclude start costs. Under GST only taxes are levied on added value. This is done via consumption on the basis of destination: in contrast to indirect taxes, GST is collected at the time of consumption. When the goods / services are ultimately consumed, the appropriate tax authorities will collect taxes with the right jurisdiction.

Important milestones in the indirect tax reform in India

- 1974- LK Jha Committee Report VAT proposal
- 1986- Introduction of limited VAT, called MODVAT
• Service tax introduced in 1994.
• 1999 Establishment of a competent committee for national VAT.
• 2000 Implementation of a uniform floor Tax rate turnover Tax incentives abolished by the province VAT implemented in April 2003 in Haryana Significant progress in 2004 CENVAT
• 2005-06 VAT was implemented in 26 states.
• January 2007 G. Shome
• 2007 F.M. GST announced in budget
• 2007 CST started in April 2007
• Creation of a joint working group in 2007 and submission of a report
• April 2008 Confirmation of EC and GST structure
• 2009 will be implemented from April 20, 2009

GST and indirect tax structure

Understanding the indirect tax system is important to understand GST. Direct taxes, such as income taxes, are borne by the person paying the taxes. This means that the tax burden can not be transferred to someone else. On the other hand, the responsibility of the indirect tax can be transferred to others. Therefore, a person who has to pay taxes can collect taxes from others and pay them to the government. The tax burden has changed. GST tax is in this category.

Goals of GST

• One country - one tax is guaranteed.
• Ensures consumption tax.
• Ensure uniform GST registration
• Remove cascade effects
• To reduce tax evasion and corruption.
• Increased productivity and turnover
• To reduce economic distortions.

The following is an important feature of the goods and services tax approved by Lok Sabha under the amendment to the Constitution:

1. GST or Goods and Services Tax (GST) comprises taxes from states, such as central and indirect taxes such as excise duties, compensatory and service taxes and taxes, dock dues and immigration taxes and luxury taxes.
2. The end user owes only the GST, imposed by the last dealer of the supply chain, and the compensatory benefits in the previous step.
3. Petroleum products, alcohol and cigarettes for human consumption as State aid are outside the scope of the GST.
4. There are two components: the central GST that the Center imposes and the state GST that the state imposes.

5. However, only the Center may charge and collect GST for deliveries during trade or commercial activities between countries. The taxes collected are distributed between the Center and the States in the manner provided by the Legislature in accordance with the recommendations of the GST Council.

6. The GST council consists of the chairman, the minister of finance and the treasurer of each state.

7. This measure proposes additional taxes of up to 1% for cross-border trade in goods and is charged and collected by the Center for a period of two years or as recommended by the GST board.

GST is more than just a tax change. It is also a 'behavioral change' and successful implementation depends on how well the country adapts to the new requirements of doing business. The imminent implementation of the GST will have an impact on personal finances, especially with regard to financial services. Insurance and banking services became expensive after 1 July when GST rose from 15% to 18%. This study tries to understand the impact of GST on the banking and insurance sector.

A significant increase in compliance

GST is a parallel tax law in which states and centers tax taxpayers in one go. Therefore, the bank may have to register for a country in each state with a branch. If a bank has several branches per week, only one registration is required for each branch in the state.

Most banks, however, are multinational. Registration per country will therefore lead to a significant increase in compliance levels. In particular, most banks have "centralized" registrations according to their service tax. As a result, the current bank can report income twice a year as a service tax. However, if you use GST, your bank may have to declare 61 income per year for each country you live in plus one annual revenue per month.

Taxation of interest

In the current tax system, the Tax Code does not value 'interest'. In the case of GST, however, the term 'service' can be defined in a broader way, which includes everything but 'goods' and can include interests.

Governments around the world do not impose GST AIDS because there is always controversy as to whether interest is time value or money in exchange for consideration. The Indian GST law must also clarify whether interest falls outside the GST range. If 'interest' is not expected to attract GST, this will affect the tax deduction that the bank claims.

Pay GST at the applicable exchange rate
With GST it is expected that the service GST yields 18%. This tax rate is 3% higher than the existing service rate of 15%. This makes financial services such as check and draft requests more expensive, especially for private customers.

Another point is that today's banks are dealing with commodities such as gold / silver, for which concessional GST tariffs can be applied. That is why banks have to be careful when paying GST at the right rate for other goods.

**Way ahead**

Banks have always been a major pillar of the Indian economy and taxpayers are literally fighting GST payments / financial needs. Therefore, the GST board should provide clarity on the banking sector for GST and identify the many outstanding issues that are currently occurring.

**Consequences of GST Insurance**

When GST was introduced, premiums were added a little more.

There are three main types of life insurance products. Premiums paid for life insurance policies represent two parts, risk coverage and savings. Service taxes are only in the risky part of the premiums, not in savings.

The value of the services that are imposed by the GST on life insurance in accordance with the GST rules

1. The total investment is reduced by the amount allocated for the investment or saved in the name of the policyholder.
2. For a single-premium policy, 10% of the purchase price is invoiced by the policyholder.
3. In all other cases this is 25% in the first year and 12.5% in the following year. If the premium on the donation plan is therefore Rs 100, 18% GST applies to 25% of the premium or Rs 25, so Rs 4.5 is the GST amount.
4. If the total premium paid by the policyholder covers only the risk coverage of a life insurance policy, such as a term life insurance policy, 18% GST applies to the full premium.

**Life insurance policies provided by government agencies are exempt from GST:**

1. Janashree Bima Yojana (JBY)
2. AAM Aadmi Bima Yojana (AABY)
3. Life insurance products with maximum coverage under the approval of the regulatory and development authority for insurance (R & D).
4. Barisuta Pension Bimajozana
5. Prado Manthi Ground Zoyo Bimayazana
6. Pradon Man Triyan Dhan Yoga
7. Pradhan Mantri Vaya Banyan Handjob
8. Other state insurance schemes that the Government of India may report in accordance with the GSTC recommendations.
9. Life insurance provided by the central government to members of the army, the navy and the air force.
10. If the new service tax rate is expected to be set at 18% in the context of the GST negotiations, the higher tax rates are expected to have a significant impact on the life insurance industry and the cost of insurance products. The penetration of life insurance in Indonesia fell to 4.6 percent in 2009, from 2.6 percent in 2016, which was negative in recent years. As the service tax rate is expected to rise from 15% to 18%, the costs for insurance and maintenance costs will increase slightly.

Conclusion

The total impact can be nominal, but once implemented, both existing and new contractors will have to pay extra costs. If the current plan premium is W10,000 (excluding 15% service tax), the GST impact will exceed the Rs 300 premium, including tax. That is Rs 11,500 to Rs 11,800. Pay particular attention to the premiums that GST includes or exclude for all insurance companies, while comparing the premiums for the insurance plan. Because the impact of GST on insurers is the same, the selection process will not change. Make sure you adhere to the correct selection process while you are well insured.

Moreover, if the premium is increased, there will be fierce competition between insurance companies offering consumers the best insurance proposal. This will certainly help the consumer. With the exception of the risk factors, the premium also includes the costs associated with the issuance of insurance policies and brokerage costs that the insurer can reduce in order to maintain the new GST premiums for old-age benefits. The tax on goods and services is a change that India is expected to turn into a simpler and more profitable tax structure, but it is not difficult to implement it. A slight increase in costs in the financial sector must be regarded as a bitter drug for a better future.

References: