

GST Aspects of Bank Audit

YUGAL GOYAL AND ASSOCIATES

405, ROHIT HOUSE, CONNAUGHT PLACE,
NEW DELHI - 110001

MOB: +91-99534-80316

EMAIL: CAYUGALGOYAL@GMAIL.COM

Contents

- Overview of GST on banks
- GST issues in banking sector
- Clarifications issued w.r.t banking sector
- Audit perspective

Overview of GST on banks

- ▶ Interest income – taxable supply but exempted under Notification 12/2017 dated 28.06.2017
 - ▶ Interest involved in credit card services – excluded from exemption
- ▶ Commission income / Brokerage income / Agency income – taxable
- ▶ Account maintenance charges – taxable
- ▶ Credit / Debit card charges – taxable
- ▶ Digital payment facilities – Single transaction upto Rs 2000 exempted
- ▶ Other income like minimum balance charges, cheque bouncing charges, DD issue charges taxable

Overview of GST on banks

- ▶ Exemptions under GST
 - ▶ Services by way of
 - ▶ extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services);
 - ▶ inter se sale or purchase of foreign currency amongst banks or authorised dealers of foreign exchange or amongst banks and such dealers.
 - ▶ Services by an acquiring bank, to any person in relation to settlement of an amount upto two thousand rupees in a single transaction transacted through credit card, debit card, charge card or other payment card service.

Overview of GST on banks

- ▶ Exemptions under GST
 - ▶ Services by way of collection of contribution under the Atal Pension Yojana
 - ▶ Services by way of collection of contribution under any pension scheme of the State Governments
 - ▶ Services by the following persons in respective capacities — (a) business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch; (b) any person as an intermediary to a business facilitator or a business correspondent with respect to services mentioned in entry (a);

Overview of GST on banks

- ▶ Place of supply

- ▶ Location of the recipient of services on the records of the supplier of services.
- ▶ If the location of recipient of services is not on the records of the supplier, the place of supply shall be the location of the supplier of services
- ▶ In case, where the location of the banks or location of the recipient of service is outside India, place of supply shall be the location of the supplier of services (NRO / NRE Accounts)

Overview of GST on banks

- ▶ RCM applicability
 - ▶ Services of recovery agent
 - ▶ Services by way of sponsorship
 - ▶ Legal services by individual / firm of advocates
 - ▶ Services provided by business facilitator to banking company located in taxable territory
 - ▶ Security services by any person other than body corporate to a registered person located in taxable territory

w.e.f
1.1.2019

Overview of GST on banks

- ▶ Input tax credit
 - ▶ Eligibility restricted to 50% of ITC on input tax credit on inputs, capital goods and input services
 - ▶ 50% condition not applicable for ITC on inter branch supplies
- ▶ Invoice
 - ▶ Banks may issue may issue tax invoice or any other document, whether serially numbered or not and issue an invoice even without containing the address of the recipient of service but contains the other information as provided by Rule 46 of the CGST, Rules
 - ▶ Option to issue a consolidated tax invoice or any other document in lieu of tax invoice for the supply of services made during a month, at the end of the month, either in physical form or electronically

GST issues in banking sector

- ▶ State wise registration requirements
 - ▶ GST rules permitted single registration of branches within state
 - ▶ Burden on inter branch coordination, maintenance of records
 - ▶ Business vertical definition removed vide GST Amendment Act
 - ▶ Permits multiple registrations within same state under single PAN
 - ▶ Applicable w.e.f 1 February 2019

GST issues in banking sector

- ▶ Inter branch transactions
 - ▶ Branches outside particular state considered as distinct persons
 - ▶ IGST applicable on inter branch transactions in different states
 - ▶ As per valuation rules, if recipient eligible for 100% ITC, value declared in invoice deemed to be value of supply
- ▶ Place of supply
 - ▶ What constitutes the 'records of the supplier' is not defined in the law leading to multiple interpretations
 - ▶ As per FAQ issued, ordinarily used for communication with the customer may be considered as the 'Place of Supply'.
 - ▶ Location of supplier = location of home branch of customer (FAQ)

Clarifications w.r.t. banking sector

Issue	Clarification
Whether ATM constitutes place of business	No
Is it necessary for Banks / insurers to report the details of exempt and non-GST supplies in Table 8 of GSTR-1?	Yes
Is it necessary for Banks / insurers to report the details of invoices in Table 13 of GSTR-1?	Even though banks are permitted to issue invoices which are not serially numbered, they are required to provide details of invoices with specific identification number
Whether payment condition required to be complied with by the recipient to claim the ITC where supplies for services are made	No

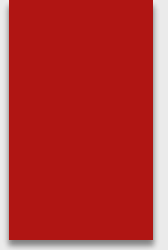
Clarifications w.r.t. banking sector

Issue	Clarification
Whether taxable value of services provided to different customers (unrelated party) at differential rates is to be enhanced	No
If any service charges or administrative charges or entry charges are recovered in addition to interest on a loan, advance or a deposit, would such charges be also a part of the exemption?	Not exempted
To what extent is invoice discounting or cheque discounting or any other similar form of discounting exempt under GST?	Discount also exempted

Clarifications w.r.t. banking sector

Issue	Clarification
Whether interest on a finance lease transaction is taxable under GST?	Yes
Where GST is charged on a supply of service and the amounts due from the customer become irrecoverable as a bad debt in commercial practice, would such GST paid on accrual basis be refundable to the service provider by the Government?	No
Will GST be charged in transactions, where loan of one bank is taken over by another bank?	Yes, on processing fee charged
Whether GST will be levied on sale of re-possessed asset?	Yes

Audit perspective



Issue	Verification
List of exempted services - whether exemption has been correctly claimed ?	
Whether GST has been charged on amounts recovered in addition to interest (such as locker rent, folio charges, loan processing fee, late payment fee, lease management fee, rent, management fee etc.) as well as on other supplies like sale of repossessed assets. Prepare reconciliation with GSTR / MIS data	
Whether GST is levied on interest and late fee charges collected from credit card holders?	
Whether requirements u/s 9(3) w.r.t reverse charge have been complied with?	
Whether claim of ITC is consistent with applicable rules?	