

GST in Banking sector and Compliance from Banking Perspective

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Overview



Supply



Time and place



Transaction Value



Credits

Impacted areas

New taxable events including taxation of free supplies

System based credit matching

IT based compliance mechanism

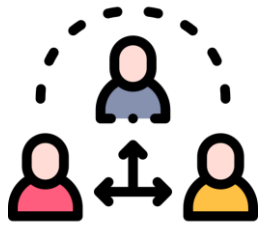
Decentralization of compliances

Knowing the location of the customer

Documentation of transactions/ reporting

Potential blockage of credits at states/ consolidation of credits

Service provided



Third party products



Digital Banking



Market participation Products



Corporate Lending



Cards



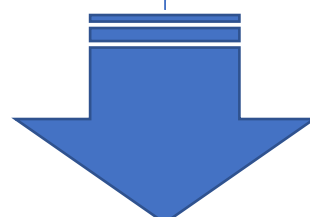
Loans



POS



Ownership

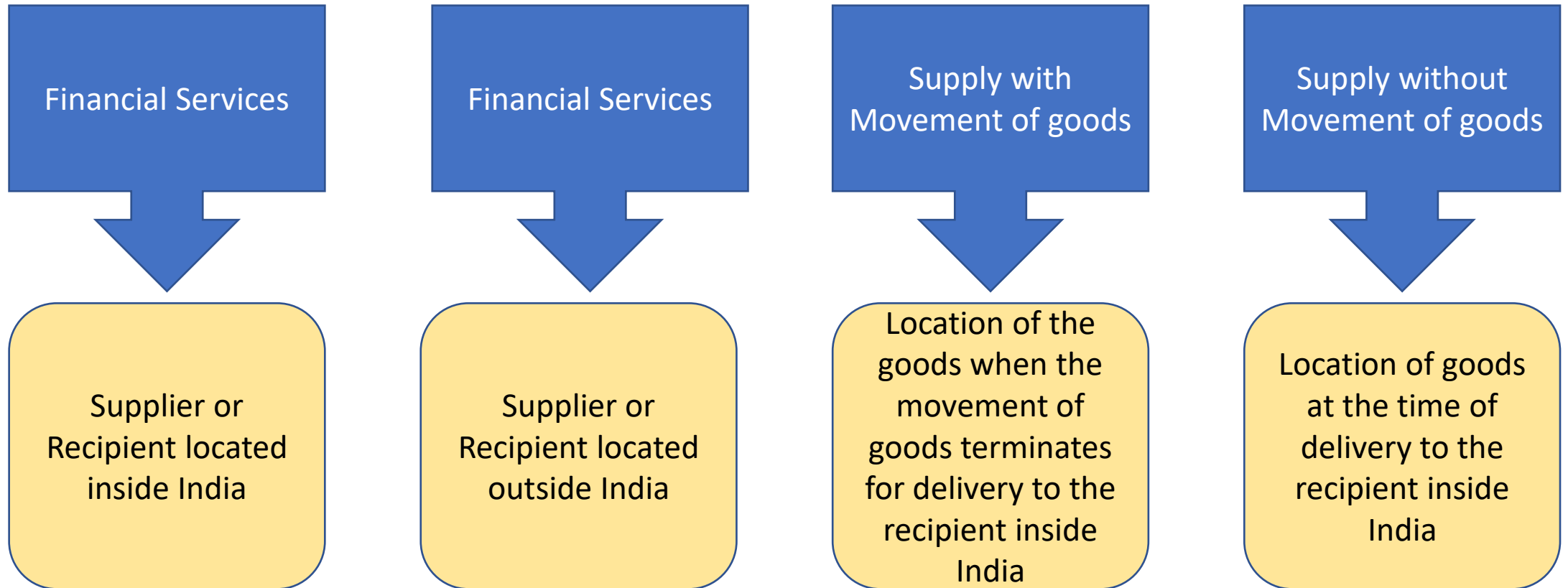


Fees/ Charges



Place of supply of service

Place of Supply of Services



Location of Supplier



Sales Location

Service performance
Location

Contractual Address

Revenue Booking
Location

- Where a supply is made from a place of business for which registration has been obtained, the location of such place of business;
- Where a supply is made from a place other than the place of business elsewhere, the location of such fixed establishment;
- Where a supply is made from more than one establishment, whether the place of business or fixed establishment, the location of the establishment most directly concerned with the provision of supply; and
- In absence of such places, the location of the usual place of residence of the supplier

Glossary

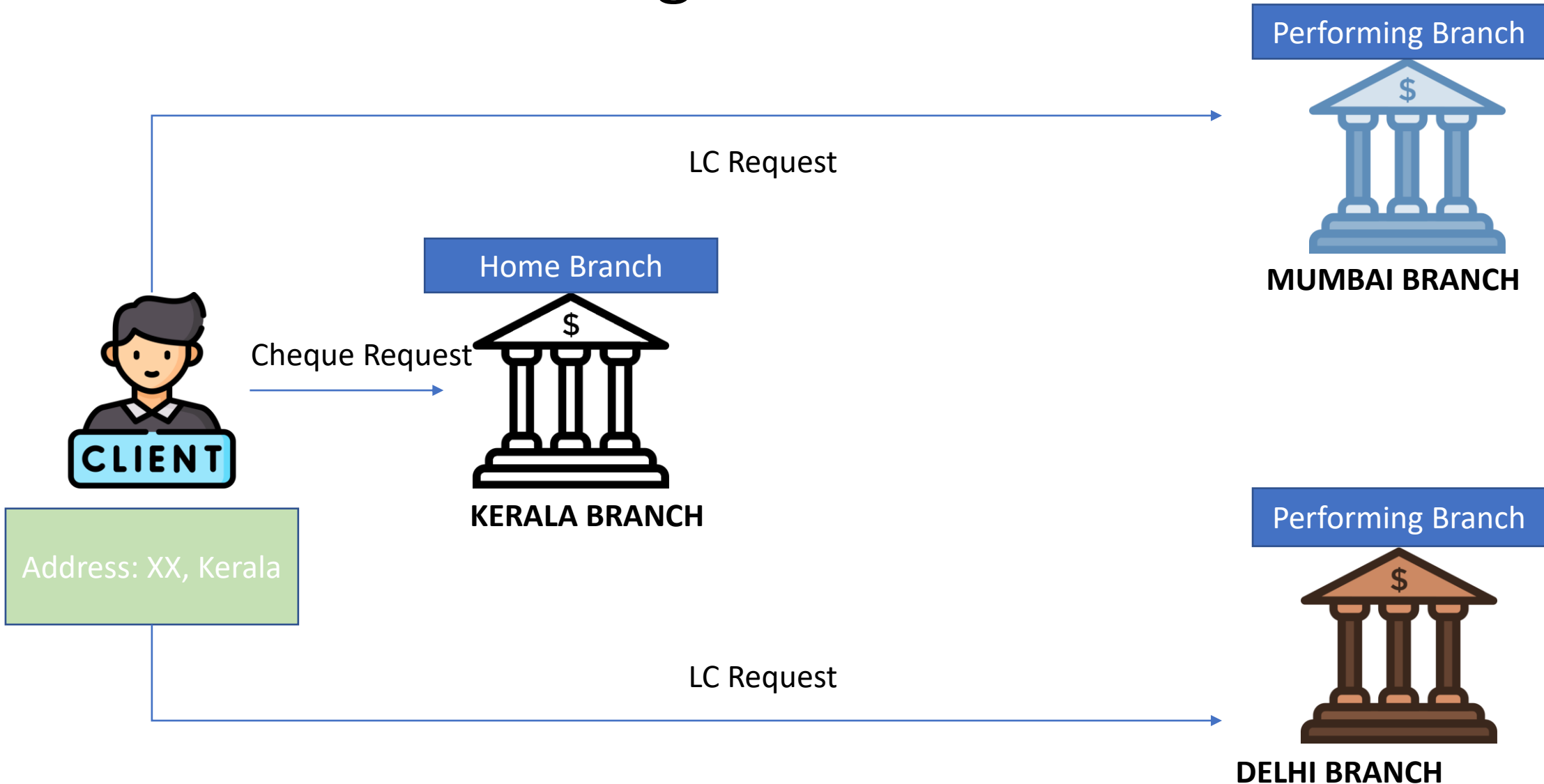
Home Branch: Home branch refers to the branch with which the customer opens his bank account. All the services in the regular course including the online service requests shall be conducted through such home branch which maintains the complete details/documentation of the customer. Hence it is the primary location for the provision of services.

Credit Hub: It refers to the back office wherein all the loan applications are processed, it is a central/regional hub wherein all details in relation to particular products of loan are available.

Performing Branch: Performing branch (Asset servicing branch) refers to the location which undertakes the performance of the services requested by the customer. It also refers to the location where the services are executed, invoices are raised etc.

Central Location: Central location refers to the location where the bank records its income at the bank level i.e., centrally under the Core Banking System for the services rendered by it across locations.

Home & Performing Branch



Loans

Interest income

- Notified as exempt income
- Mapped to the home branch and reported state-wise
- Penal interest/charges in the nature of interest towards the consideration shall be considered to be a taxable supply and accordingly may involve specific identification and state wise mapping

Loans

Fee Income

- Location of service is Home Branch.
- Cross charging required in case the credit hub/ processing branch/ central office and the home branch are located in different states.
- Mapping of various types of fee income which is linked to accounts, but are currently accounted/ billed centrally, need to be mapped to home branch and reported state-wise
- Transactions w.r.t staff personal loans mapped under GST for valuation purposes.
- Where the services are offered to a specific class of customers, concessions and waivers provided to employees required to be evaluated from valuation perspective.
- Credit note to be issued for each reversal of income. Credit note to give reference to the original invoice raised.
- Valuation of transaction between related parties to be as per open market value of same supply or open market value of like supply or cost of supply plus 10%.

Loans

Sale of Repossessed Asset

- If the borrower fails to repay an asset backed by a collateral even after the due date, the home branch initiates sale of said asset.
- If the loan outstanding exceeds a certain threshold, the said process will be initiated through LCRD else through Asset recovery Branches.
- In case of Gold, sale takes place by way of auction and in case of other assets, it will be through Court /SARFAESI scheme
- Specific valuation method prescribed under Rule 6 (5) of the Valuation Rules, 2017, for sale of repossessed goods
- The sale of immovable property has been kept outside the ambit of GST
- Sale of all other assets (viz. gold, vehicle, stock, plant and machinery) subject to GST
- The expenses and income in connection with repossession and the subsequent sale are booked by the respective loan sanctioning branch (i.e. home branch)
- A cross charge should be mapped for the expenses of the recovery agents incurred centrally between the central office and the respective branch
- The services provided by a recovery agent to a bank are subject to reverse charge.
- Charges like legal charges, valuation fee etc. recovered from customers.

Retail / Corporate Liabilities

Current & Savings Account

- Core Banking Systems allows customers of a particular bank to transact anywhere in the country with the same bank account details without any restrictions.
- The home branch is the branch where a customer opens his account and it is this account which enables a customer to access various facilities linked with the account including cheque books, Debit card, Account statements/ certifications, etc
- The performing Branch is only involved in honouring the facility provided/ promised by the home branch to the customer. Therefore, for all services/ facilities which are linked to a particular account, the relevant location of the supplier is likely to be the home branch
- A cross charge invoice would be required in case the performing branch and the home branch are located in different states

RETAIL / CORPORATE LIABILITIES

Cash Credit/ Overdraft - Interest Income

- The cash credit facility/ over draft facility is always linked to any given current account. Therefore, the home branch where the current account is mapped is supplier location.
- Where the facility has been requested and processed in a branch other than the home branch, the bank will have to identify on a case to case basis the branch which has actually processed the facility.
- Further, a cross charge invoice would be required in case the performing branch and the home branch are located in different states.

Retail / Corporate Liabilities

Third Party Products- Commission Income

Mutual Funds, Life Insurance, Health Insurance, General Insurance, Online Trading and Portfolio Investment Scheme.

Income: Commission on selling the third party products to customers.

- ▶ Under the third party products, there is a tie up with the third party Mutual Funds, Insurance companies and brokerage firms for rendering services to the end customers
- ▶ The nature of income earned under the third party products is essentially the commission income earned from third party service providers
- ▶ Bank acts as a connector between the customer and the third party from which it earns the said income on facilitating the provision of such service.

Cards, POS, Interchange & Digital Banking

Determination of location of supply:

The said income is generated on account of network sharing between various banks and the contract with the settlement agencies is entered centrally. Thus the address of the bank mentioned in the contract that is entered with the settlement agencies is the location most directly linked to the supply of service.

- Interchange fees earned by the bank liable to GST
- Income mapped to the location entering into the contract with the settlement agencies under GST
- The bank is to issue tax invoice w.r.t such interchange fees.
- Payment made to Visa and master card for their charges shall be liable to GST under reverse charge.

Prepaid Wallets/ Cards

Issue Fee Income

- The card issuance fee, reloading fee and cancellation fee (or any other fee, if any) in the case of prepaid cards and the loading fee (or any other fee, if any) in the case of e-wallet is subject to GST.
- Given that the majority of activities in relation to prepaid cards and e-wallet are processed centrally, the LoS will be the location of such processing branch.
- In case of travel cards, the LoS w.r.t currency conversion charges is the central location.
- The location of service recipient for such cards / e-wallet shall be the address on record (i.e. communication address of the customer)
- In case of non-account holder customers, the location of service recipient would be considered to be the location of processing branch (central) itself. Therefore, the supply would be considered as an intra-state supply.

Internet Banking and Payment Gateway

- The home branch is the branch where a customer opens his account and it is this account which enables a customer to access various facilities linked with the account including internet banking.
- The processing location (i.e. the Operations) is involved in providing the necessary infrastructure for internet banking. The relevant location of the supplier continues to be the home branch.
- A cross charge invoice would be required in case the processing location and the home branch are located in different states.

POS Machines – Rental income and commission

- The home branch is the branch where a customer opens his account and it is this account which enables a customer to access various facilities linked with the account including internet banking.
- The processing location is involved in providing the necessary infrastructure. The relevant location of the supplier continues to be the home branch.
- A cross charge invoice is required in case the processing location and the home branch are located in different states.

Trade Products & Market Participation Product

- As regards trade products, the customer approaches the nearby branch. However, the home branch may not always receive an application for the services viz. LC , BG, etc. Thus, the said performing branch location is likely to be the location most directly concerned location.
- Further, in case of online sourcing, the branch processing the application is likely to be considered as LoS.
- Further, a cross charge should be mapped in case the performing branch and the support service branch are located in different states.

CMS Charges



Cash management services are provided by the bank through different locations and through multiple mediums like branches.



For e.g. the daily collections of stores located in various states of a supermarket chain would be collected and deposited in its current account with Bank. Therefore, the services are rendered at multiple locations (Multiple performing branches).



Similar to all other current account facilities, all locations involved in undertaking the CMS activity for account holders are the home branch's obligation to provide services to the customers. Accordingly, the location most directly concerned is the location of the bank where the customer is holding his account. i.e. the home branch.



A cross charge should be mapped in case the performing branch and the home branch are located in different states.



Any cash management services to non-account holders, LoS shall be the location of such performing branch as there is no concept of home branch here.

Gold Metal Loan Scheme:

The customer places a request with Bank for the gold metal loan specifying details such as purity and quantity. A minimum prescribed quantity requirement exists.

Bank in turn places a request with an overseas supplier (foreign bank). The supplying bank opens a gold metal loan account in the name of Bank and exports the gold bars through an agent to India.

Principal amount = London Bullion Market Association ('LBMA') rate in USD on a daily basis x Qty

Interest = Principal x interest rate on a running basis

Gold Metal Loan Scheme Contd...

- Bank pays the required duties, handling charges etc. through the agent and clears the gold. The agent keeps the gold in his vault. Based on customer's request, the agent would issue the gold bars to the customer. At this point, the customer's loan account gets debited.
- The duties and handling charges paid by bank and processing fee will be debited to the customer's current account.
- The maximum duration of the loan is 180 days / 270 days (depending on whether the customer uses the gold for domestic sale or exports)
- The customer needs to settle the loan within the time-limit.
- A tax invoice will be raised by bank at the time of settlement of the loan based on the LBMA rate on the date of settlement
- On settlement of the loan by the customer, Bank would settle its liability with the supplying bank
- Income: Processing Fee; Recovery of import related expense; Sale price of gold bars (Principal), Interest on Loan.

Points to be considered:

The supply takes place when the bullion is delivered to the customer and the customer loan account is debited ('principal amount').

However, at the end of tenure of the loan, given that the price is not fixed, Bank would need to issue debit/ credit note wrt differential GST liability on account of change in gold rate and subsequently discharge/ adjust the same.

Under the GST regime, such supply of gold on loan basis qualifies as supply of goods and accordingly, CGST + SGST/ UTGST or IGST shall be applicable (as the case may be) on such supply.

As per section 15 of CGST Act, value of supply shall be based on the transaction value of such supply.

Accordingly, at the time of delivery applicable GST should be payable on the 'price actually paid or payable'.

With respect to the interest income on such gold loan, the same will continue to be exempt.

Inter-state movement of such gold/ silver bars should be mapped for reporting purposes.

CBLO - Interest Income:

CBLO is an RBI approved money market instrument which is backed by Central Government securities or Treasury bonds ('Gilts').

CBLO creates an obligation on the borrower to repay the money borrowed along with interest on a predetermined future date.

Clearing Corporation of India Limited ('CCIL') provides the Dealing System through Indian Financial Network (INFINET), a closed user group for the Members of the Negotiated Dealing System (NDS) who maintain Current account with RBI.

CBLO - Interest Income:

Once CCIL has matched the borrowing and lending, present value ('PV') of the loan is determined using the present REPO/Reverse Repo interest rate. It is such present value that is received by the borrower.

The difference between the face value ('FV') of the loan amount and the present value is the interest that is payable on such loan.

Under a CBLO arrangement, the order matching is done on an anonymous basis through INFINET and the buyer and the seller cannot select the counterpart.

CBLO - Interest Income:

Interest/discount earned by way of extending loans or deposits is classified as exempt income.

Bill of supply would have to be generated for the customer for every interest income earned.

Interest income although exempt would have to be mapped and reported state-wise.

Difficulty in identifying the customers as orders are matched on an anonymous basis.



Sale of PSLCs

Enable banks to achieve the priority sector lending target and sub targets and at the same time to incentivize the surplus banks the concept of PSLC was introduced by RBI.

PSLCs are in the nature of goods, dealing in which has been notified as a permissible activity under section 6(1)(o) of the Banking Regulation Act.

PSLCs are traded through an online portal of RBI.



Sale of PSLCs

- The PSLCs have a standard lot size of INR 25 lakhs and multiples thereof.
- Under a PSLC, the seller will be selling fulfilment of priority sector obligation and the buyer would be buying the same.
- The buyer would typically pay a premium to the seller which will be market determined. The settlement of premium is done on a real time basis and the respective current accounts of the participating banks with RBI will be debited/credited.
- The order matching is done on an anonymous basis through the portal and the buyer and the seller cannot select the counterparty.



Sale of PSLCs

Points to be considered:

- PSLCs are in the nature of intangible property and accordingly the same should be considered as goods.
- Banks will have to issue an invoice on the customer bank for every transaction.
- Difficulty in identifying the customer bank as orders are matched on an anonymous basis.
- GST under RCM.

GST Compliance for IFSC



THE IFSC BUSINESS UNIT ('IBU') IS REGISTERED AS AN SEZ UNIT AT GANDHINAGAR, GUJARAT



SEPARATE REGISTRATION UNDER GST FOR ITS SEZ UNIT (I.E. IBU UNIT)




ALL THE COMPLIANCES TO BE UNDERTAKEN BY OTHER BRANCHES WILL BE EQUALLY APPLICABLE TO THE IBU UNIT WITH RESPECT TO SUPPLIES MADE TO DTA UNITS.



SUPPLIES MADE BY IBU TO OTHER SEZ / FOREIGN CUSTOMERS ARE NOT SUBJECT TO GST.



SUPPLIES MADE BY IBU UNIT TO DTA SHALL BE LIABLE TO IGST (EVEN WHERE SUCH SUPPLIES ARE MADE TO A DTA UNIT IN THE SAME STATE)



Refund of GST along with income



Customer relationship maintenance



Waive/reverse income collected.



Current month reversal- Net amount shown in return




Subsequent month reversal- Credit note raised against original invoice.

As per Section 34 of CGST Act 2017, Credit Note can be raised under the following situations only:

1. The taxable value or tax charged in the tax invoice is found to exceed the taxable value or tax payable in respect of such supply
2. We either erroneously charged a higher fee, or as per terms of the contract between the customer and bank, customer is eligible for reversal
3. The goods supplied are returned by the recipient
4. GST is not applicable for the services rendered by bank
5. The goods or services supplied are deficient. In this case, it must be reported in return that there was a deficiency in the services provided, which will affect the credit rating of our bank in the industry.



Question



Processing Fees was collected in excess of Sanction order on 10th January 2021 (Transaction Date). On being aware of the same at a later date, the branch tries to reverse the wrongly collected processing fees (excess) along with GST on 5th October 2021. Whether GST can be refunded?

- a. Yes. As the processing fees along with GST was collected in excess of sanction order, GST can also be refunded at any future date.
- b. No. GST cannot be refunded after 30th September 2021 (as original transaction date relates to previous Financial year i.e. FY2020-21) irrespective of whether the same was wrongly collected or not.

GSTIN Updation of SEZ Customers & marking exemption

- GST registration Certificate,
- Letter of Approval from SEZ Authority,
- Declaration under the customer's letter head, addressed to Bank, stating that the activities undertaken by the entity are as approved by the SEZ authorities and
- Details of account numbers exclusively used for the above activities by the SEZ customer.

Expenses



Inputs: Stationery &
Consumables



Input services: Rent, Security,
Housekeeping, Advertisements,
Professional services, etc..

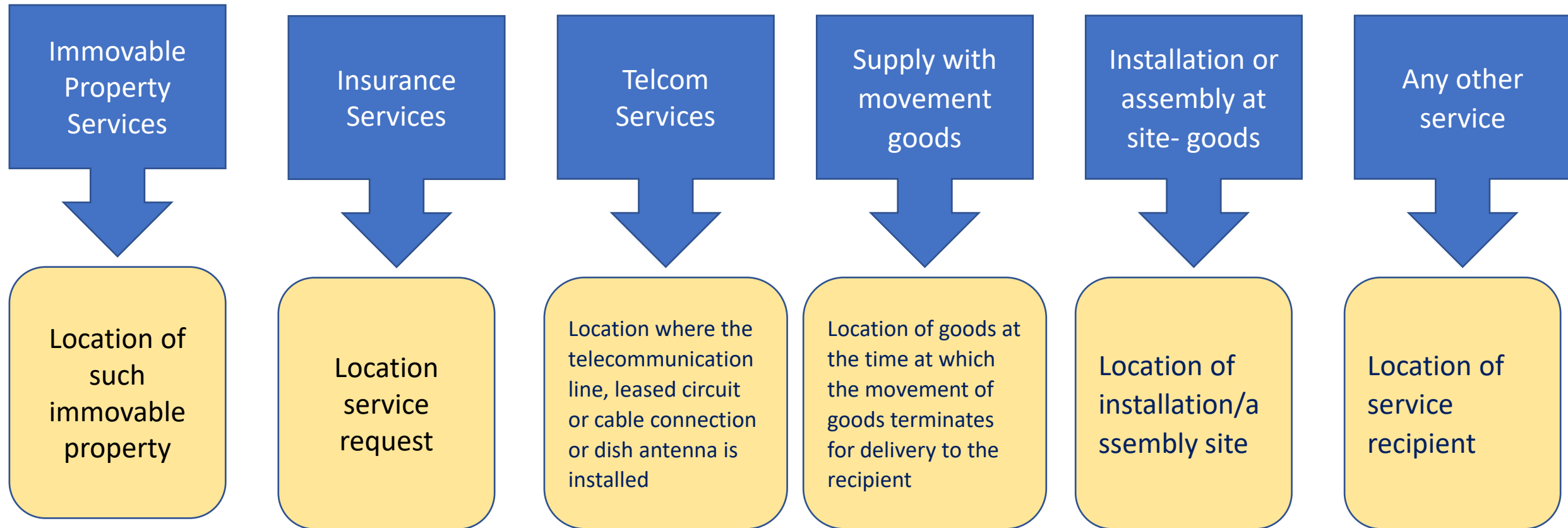


Capital Goods: Building,
Furniture, Lockers, Note
counting machines, etc..

GST on EXPENSES INCURRED

Activity	CGST	SGST	IGST
Import of goods	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inter-state sale / purchase (supply) of goods	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Intra-state sale / purchase (supply) of goods	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Import of Service	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inter-state sale / purchase (supply) of service	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Intra-state sale / purchase (supply) of service	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Exports	Zero Rated		

Place of Supply for Key Expenses





INPUT TAX CREDIT

Timeline for claiming credit

- Credit for any invoice of a FY can be taken only till earliest of: filing the return for the month of September following the said FY.

Restrictions for claiming credit

- Value of supply of services and tax to be paid within a period of 180 days from the date of invoice by the supplier. If not, an amount equal to ITC to be added to output tax liability along with interest thereon.
- Re-avail the credit when the payment is made to the vendor subsequently without any time limit



INPUT TAX CREDIT

Admissible Credits

- Registered person can take credit of GST charged on any capital goods, inputs and input services which are used or intended to be used in the course or furtherance of business.
- With respect to the common credits, Bank has the option to avail the proportionate credit or opt for special provision available to banking companies, to avail 50% of eligible input tax credit on input, input service and capital goods.

Inadmissible Credits

- No credit shall be available if: Capital goods, input and input services are exclusively used for non-business purpose.
- Capital goods, input and input services are exclusively used for exempt supply.
- Capital goods, input and input services are specified in Section 17(5) of CGST Act, 2017.

Reconciliation of Input tax credit

- As per the GST Act, the reconciliation needs to be made on monthly basis and bank can claim Input Tax credit (ITC) only on those invoices which are directly matched with the data available in GSTR 2A.
- If the bank claims unmatched ITC while filing monthly GST returns, then such claim will attract penalty & interest for wrong utilization of credit and further bank needs to reverse such unmatched ITC subsequently.
- As per section 16(4) of CGST Act 2017, a registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return under Section 39 for the month of September following the end of the financial year to which such invoice or invoice relating to such debit note pertains to or furnishing of the relevant annual return, whichever is earlier.
- Therefore, for the bank to avail the GST input credit from the invoice related to a financial year, payment for the same should be made within 30th of September following the end of the financial year by debiting the corresponding expense and GST input credit account.

Ineligible Input Credit

As per Section 17(5) of CGST Act 2017, the following input credit is not allowed on payment of GST (ineligible tax credit):

Sl No.	Expenses	Illustrations
1	Motor vehicles and conveyances	Bank purchases a car for business purpose. The ITC on GST paid on the above purchase cannot be claimed.
2	Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery	Bank arranges for an office party for its employees. Bank will not be able to claim ITC on the food & beverages served.
3	Membership fees for gyms, clubs etc.	Executive/Employee has taken membership of a club and the bank pays the membership fees. ITC will not be available to the bank or to the Managing Director.
4	Rent-a-cab, health insurance and life insurance	Bank hires a rent-a-cab service to provide transportation of employees. ITC will not be available to bank on the GST paid to the rent-a-cab service.

Sl No.	Expenses	Illustrations
5	General insurance, servicing, repair and maintenance	No ITC is allowed on services of general insurance of employees and servicing, repair & maintenance of vehicle.
6	Travel benefits extended to employees on vacation such as leave or home travel concession	Bank offers a travel package to its employees for personal holidays. ITC on GST paid by bank for the holiday package will not be allowed. ITC will be allowed for travel for business purposes only.
7	Works contract service	Bank constructs an immovable property. They cannot claim any ITC on the works contract.
8	Constructing an immovable property whether to be used for personal or business use.	Bank constructs an office building. ITC will not be available



Question

Hotel Room situated in New Delhi is booked for meeting conducted by Branch /Office/ Department situated in Maharashtra. Total Expenses (excluding GST) incurred as stated separately in the hotel bill include accommodation (Rs.12,000), food and beverage expenses (Rs.4,500).

Question 1: - On what amount can GST Input Tax credit be availed.

- a. Accommodation expenses alone – Rs.12,000
- b. Food & Beverages expenses alone – Rs.4,500
- c. Total Bill Amount – Rs.16,500



Question

Question 2: - Whether expense and eligible GST Input should be booked in New Delhi or Maharashtra.

- a. Maharashtra Branch
- b. Nodal Branch of New Delhi
- c. Either of the above two



Question

Question: - Branch / office / department situated in Tamil Nadu while trying to initiate a payment finds that the vendor GST invoice is addressed to Kerala Branch Address with GSTIN of Bank stated as “32XXXXXXXXXXZ5”. How should the Branch / office / department situated in Tamil Nadu proceed with the payment?

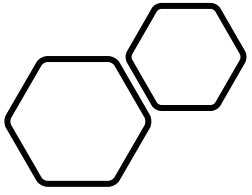
- a. They shall proceed with the payment by debiting related expense and GST Input account of their Tamil Nadu branch.
- b. They shall inform the vendor to issue a revised bill addressed to Tamil Nadu branch with GSTIN stated as “33XXXXXXXXXXZ3”.
- c. If the vendor is reluctant to change the bill address and Bank’s GSTIN stating that the bill relates to a prior month/ any other valid reason, then the Branch / office / department shall account such expense and GST Input in the nodal sol of state Kerala.
- d. Both b and c.

Reverse Charge Mechanism (RCM)

- Supply of services by a Goods Transport Agency (GTA) in respect of transportation of goods by road.
- Services supplied by an individual advocate.
- Services provided by way of sponsorship.
- Services provided by the Central Government, State Government, Union territory or local authority (including renting of immovable property).
- Services supplied by a director.
- Recovery Agents
- Services supplied by individual Direct Selling Agents (DSAs) other than a body corporate, partnership or LLP.
- Service supplied by any person who is located in a non-taxable territory (Import of Service).
- Non-corporate security service providers (Security services).
- Services provided by business facilitator (BF).
- Renting of motor vehicle and GST charged by the service provider other than 12%.

E-Invoicing under GST

- Rule 48(4) of CGST Rules, notified class of registered persons have to prepare invoice by uploading specified particulars of invoice (in FORM GST INV-01) on Invoice Registration Portal (IRP) and obtain an Invoice Reference Number (IRN) with QR Code.
- However, Banking sector is exempt from the e-invoicing mandate.
- Despite the above exemption, bank need to ensure that our vendors, for whom e-invoicing is applicable, are issuing e-invoice and the payment is released based on the same only.



CROSS CHARGE





Challenges
faced by Bank
in Compliance

Risks & Mitigation

The slide features a white central area with the text "GST Annual Return". The background is composed of geometric shapes: a dark grey triangle in the top-left, a light grey triangle in the top-right, a light grey triangle in the bottom-left, and a yellow triangle in the bottom-right. All triangles are separated by thin white lines.

GST Annual Return

Annual Return in Banking perspective

- Preparation of state wise Financials from Audited Financial statements.
- Reconciliation statement with P&L and GST paid
- Identification of differences
- Filing of GSTR 9- with or without updation
- Preparation of GSTR 9C
- Notes to GSTR 9 & 9C
- Filing of GSTR 9C





Questions & Answers

THANK YOU

