GST in the Banking Sector

Student's Name

Institution of Learning

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The banking sector is one of the integral pillars in the state economy and in business operations, as banks offer not only financial services but also loan funds to businesses, support the public sector, and creates bridges between the domestic market and international trade. The regulation of the banking sector depends on several factors, where two of them are taxes and the taxation system. For the domestic market, taxes play a significant role in transaction regulations and balance sheet planning, while for international trade, taxes provide tools to regulate prices on imports and exports. As the banking sector is the mediator in these financial and non-financial relations, tax policies also impose opportunities or constraints on banks' services and operations. In this instance, it is vital to understand how taxes affect the banking sector and which outcomes can be expected if they will increase, decrease, or change their nature.

GST Background

The Good and Services Tax (GST) is one of the most common and fundamental tax policies in any country, as it is a primary source to fill in the state budget and support a country's expenses. The GST can be unified or split based on a country's policies and economic objectives. The unified GST undertakes a single tax on goods and services through the country and usually is fixed in the long-term economic perspective. The unified GST is a single collected tax, which is collected annually by the federal budget and is also used only by the government for a country's needs (Bhasker, 2017). Another type of GST is called Dual Structured GST, which is applied, for example, in Canada. This tax is also collected by the federal government; however, it is immediately redirected to states for their needs.

In comparison, the unified GST may vary between 6-11%, while the Dual Structured GST encompasses 5% for the federal budget and 7-10% for state budgets. The last one is also may be called the provincial state tax (PST) (Mukherjee, 2015). Nonetheless, countries that have both GST and PST are changing their approach toward tax collection and introducing the Harmonized Sales Tax (HST), which is a subtype of the unified GST—still having two columns of taxes.

Even though most countries apply the GST for all goods and services without exception, India developed a different structure of the GST, making taxes for some categories 0% or exempt ones, which is similar to the U.S. tax-exempt list (Bhasker, 2017). As can be seen, the GST varies from country to country; however, the approach to collect or categorize taxes are similar or has slight differences based on the peculiarities of selected economics.

State Perspective on GST

The GST is applied to take a part of businesses' revenue to fill in the federal or state budget; however, this tax also returns to companies as a governmental initiative for small and medium business support, international trade and relation establishment, and positive investment environment creation. From the state perspective, the GST is a positive and balanced economic tool which does not harm business operations and helps to contribute to the public sector where business customers are. As a result, it can be stated that the GST is a regulatory approach which benefits both citizens and companies.

Nonetheless, GST rates may threaten businesses, as when a country has high rates of inflation, the tax rates immediately grow, making goods and services more expensive. Moreover, tax rates also dictate operational costs—materials, labor force, and investments are also counted as goods and services (Lourdunathan & Xavier, 2017). From this perspective, the balanced taxation system is a key to preserve economic stability; however, taxes depend much on the government economic agenda and proper monetary system regulations.

Impact on Banking Sector

The banking sector as the mediator in all domestic and international financial operations is sensitive to GST fluctuations and monetary system changes. As banks offer services, they are also obliged to pay the GST so that the price for banking sector services depends on the GST. As companies cooperate with banks, use their services for accounting and transactions, unbalanced GST policies make banks vulnerable or unattractive for businesses. Besides, banks also have private clients who also use banking sector services for personal needs (Delova-Jolevska & Andovski, 2014). In this instance, the transaction fees, account payments, and maintenance depend on the GST, and if it is low and stable, banks offer attractive programs and services for individuals.

Moreover, the banking sector as a mediator between taxpayers and tax collectors plays a pivotal role in tax assessment, distribution, and control. The more branched a fiscal system is, the more operations banks conduct. In this instance, banks go for the unified and single tax system, as they will not be required to manage additional operations or allocate extra capital to support the tax collection process (Agarwal et al., 2019). In most developed countries, taxes are collected automatically through banks and their system of client assessments and monitoring (Lourdunathan & Xavier, 2017). Banks deliver information to the fiscal system about clients' financial operations so that the tax amount can be calculated and applied for collection. From this perspective, the complicated GST system may lead to the banking sector inefficiency due to the significant number of operations to conduct. The unified or single GST positively affects the banking sector by providing less pressure on the banking sector's functionality and assets.

Future of the GST

Delova-Jolevska and Andovski in their study on the GST's influence on the banking sector and its consequences in public and private sectors indicate that the growth of the GST is a negative phenomenon for the economy. While the increase in tax collections may help to invest more in the public sector and support some social programs and initiatives, the private sector may collapse under higher GST rates (Delova-Jolevska & Andovski, 2014). The financial burden of increased taxes will require more operational expenses and price growth so that consumers will purchase goods and services less.

Nonetheless, the decrease in the GST supports the rapid revenue growth in the private sector. In this instance, financial operations deliver a sufficient amount of tax fees to fill in the budget; however, low tax rates mean more careful budget planning so that the private sector becomes a sponsor for social programs (Agarwal et al., 2019). As a result, the banking sector wins only if the GST sounds balanced, as banks depend on both the number of financial operations and monetary policies so that banks are interested in having a moderate GST, which is preferred to be unified. From this perspective, further investigations and regulations on the GST from the banking sector view should align with the needs of the public sector in fund generation, and private sector interests in having lower tax rebates with higher financial operations turnover.

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