

Govt Clarifies GST Applicability on Financial Services

Goods and services tax applies to exit loads charged by mutual funds, additional interest charged for default in payment of loan instalments and late payment charges levied by credit card companies, the government has said.

Securitisation, future contracts, derivatives and forward contracts in commodities, unless entailing actual delivery of commodities, will however not be liable to this tax which was introduced on July 1 last year. The detailed clarifications for the financial services sector issued in the form of frequently asked questions (FAQs) seeks to address some pertinent issues relating to the industry such as levy of tax on free services. The FAQs issued late Saturday night cover banking, insurance and capital markets.

For banks, automated tellers machines or ATMs will not constitute place of business and will not trigger GST registration, the government said. In case services are provided by multiple branches to a customer, the branch where the account is opened will pay GST and other branches will be deemed to provide services to the main branch. In case of import of gold, integrated GST will apply once, on import, and not again when it is appropriated by banks.

Services provided by banks to the Reserve Bank of India will be taxable as these are not covered by any of the exemptions or excluded from the purview of GST. However, the repo rate or reverse repo rate are exempt from GST, as per the clarifications issued. “These are the most comprehensive sectoral FAQs issued by the government and clarify most of the issues raised by the industry. It is very significant as globally as well the financial service sector is considered as most complex from GST standpoint,” said Pratik Jain, indirect tax leader, PwC.

In a clarification which has ramifications for foreign banks, management oversight or stewardship activities performed in relation to business operations by the head office of a bank to a branch in India will be considered a supply of services by the head office even when there is no consideration charged and face GST. The government said banks can issue a consolidated statement or invoice to the customer at the end of the month, with the details of all the charges levied.

Insurance policies issued to non-residents are liable to GST where payment is made from non-resident accounts in Indian rupees, according to the FAQs. “The issuance of detailed FAQs on taxability of various revenue streams, place of supply, procedural relaxations in registrations, nature of various documents to be issued, etc., would definitely provide a lot of clarity to the banking industry and should result in adoption of standard practices within the industry,” said Harpreet Singh, partner, indirect taxes at KPMG.

(Economic Times)