

Government likely to withdraw tax notice on free banking services

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The tax department will likely withdraw a show-cause notice issued to several banks asking them to pay the service tax on 'free services' provided to customers, following the finance ministry's intervention

The department of financial services (DFS) has presented the views of the banks that have opposed the tax to the revenue department. "We have spoken to the revenue department and requested them not to pursue the case. The matter will be settled and the case might not be pursued further," said a senior finance ministry official.

Some of the Directorate General of Goods and Services Tax Intelligence (DGGSTI) offices had issued the notice to some private banks, including ICICI Bank, HDFC Bank and Axis Bank, and a few public sector banks, including State Bank of India (SBI), asking them to pay penalty and interest on the unpaid service tax in this regard for the period July 2012-June 2017. The DGGSTI was in the process of issuing similar notices to other banks when the finance ministry intervened, senior officials said. Every bank offers a different slab of minimum balance to customers, based on which 'free services' are provided.

The tax demand was made for customers maintaining a minimum balance in their deposits and availing certain free services from banks, including a few cash withdrawals from ATMs, cheque books, account statements, internet banking, debit cards and PIN change.

Another finance ministry official confirmed the DFS had sought clarity on the matter, as the law did not state whether such services could be taxed or not. "The GST intelligence department interpreted that such services can be taxed. It was interpretational in nature as the banks have been doing business by offering these services. However, after the stiff opposition from the industry, the Central Board of Indirect Tax and Customs is doing a rethink," the official said.

Meanwhile, the banks were in the process of responding to the notice individually in the normal course of business, a private sector banker said. The Indian Banks' Association (IBA) has hired a consultant to represent the views of the industry collectively to the government.

"It would be prudent not to proceed further with the issue of levying the service tax on free services. There is a merit in saying that charged levied without any corresponding services should not be liable to service tax. Efforts to avoid litigation would be appreciated by businesses," said MS Mani, partner at Deloitte India.

Last year, the GST intelligence department had issued a notice to the Employees' Provident Fund Organisation (EPFO), asking them to explain a possible default on payment of service tax and sought to examine the PF department's records till 2016-17. The DGGSTI, in July last year, had written to the EPFO informing about a probe into non-payment of service tax between July 2012 and March 2016. The EPFO had raised the issue with the finance ministry through the labour ministry, following which the case was not taken forward.

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