


Banking sector likely unprepared for GST rollout on July 1

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A cashier stacks Indian currency notes inside a bank in Chandigarh, India. (File Photo | Reuters)

MUMBAI: The incoming GST may be the biggest tax reform in the country, but it's the banking and financial system that needs to overhaul the infrastructure needed to facilitate a smooth transition. Unfortunately, the sector seems little prepared for the full-fledged roll-out slated for July, 1.

According to the Indian Banks' Association (IBA), banks are not yet geared up for GST implementation.

"Since the GST will be operational from July 1, 2017, banks have to make lot of changes in their systems and other procedures. The preparedness of all banks for implementation of GST is a question mark," the IBA recently informed the Parliamentary Standing Committee on Finance.

It added that several services by banks to customers were centralised, while others were localised. The banking system is central to any financial transactions, and hence their IT, accounting and compliance standards need to undergo change.

"Currently, banks are following the approach of centralised registration and billing model. However, in terms of GST provisions, banks would be required to obtain registration de-centrally in each state, where they have branches and offices. The sector was hoping for a relaxation in the form of centralised registration, which did not go through," Mahesh Jaising, Partner, Indirect Tax, BMR & Associates LLP told Express.

Hence, such de-centralised approach has been a game changer for the banking sector, which is saddled with inherent business complexities.

The key area that banks are working on for a smooth transition is to determine vis-a-vis transaction as to which location should be billing location and importantly, which state should be tagged as the place of supply.

"The determination is likely to be a Herculean task in the wake of bank branches conducting several transactions (both inter-state or local) and where in some cases, one single transaction is routed through various branches," said Jaising. According to Madan Sabnavis, Chief Economist, Care Ratings, banks need to have IT systems to allow seamless payments.

"This is where there will be a challenge as all tax credits have to be reflected in the account of the corporates and governments to make use of the same," he explained.

For instance, company A may pay tax through say Canara Bank account to the government, which has to match another company B that is picking up the transaction through another bank, said PNB.

"The IT systems need to be well integrated with banks to facilitate seamless connectivity," he added.