



## Impact of GST on the Indian Banking and Financial Service Sector

**Dr. Narendra Haribhau Shegokar**

Assistant Professor

Department of Commerce

Shri Vyankatesh Arts, Commerce and Science College,

Deulgaon Raja, District Buldhana Pin code 443204

Mobile number: 9422989632,

Mail Id [shegokarnh1972@gmail.com](mailto:shegokarnh1972@gmail.com)

### Abstract

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, marked a historic reform in the country's indirect taxation system. GST subsumed multiple indirect taxes including service tax, excise, and value-added tax, thereby creating a unified tax structure across goods and services. The banking and financial service sector, a critical pillar of India's economy, has been significantly impacted by GST both in terms of taxation framework and operational dynamics. This research paper provides a comprehensive assessment of the impact of GST on the Indian banking and financial service industry (BFSI), covering banks, insurance companies, non-banking financial companies (NBFCs), and mutual funds. Using secondary data from the Reserve Bank of India (RBI), Ministry of Finance, GST Council, SEBI, and IRDAI, along with scholarly articles and reports, the paper evaluates revenue trends, compliance costs, operational challenges, and customer outcomes. The study finds that while GST has streamlined taxation and improved transparency, it has also increased compliance requirements, escalated IT and administrative costs, and raised service charges for customers. Case studies on leading institutions such as State Bank of India (SBI), HDFC Life Insurance, and NBFCs highlight practical challenges in GST adoption. The analysis further explores policy gaps and provides recommendations to improve GST implementation in the BFSI sector.

**Keywords:** *GST, Banking Sector, Financial Services, Indian Economy, Tax Reform, Compliance, BFSI*

### 1. Introduction

The Indian financial sector plays a foundational role in sustaining the nation's economic growth. It comprises a wide network of commercial banks, NBFCs, insurance firms, mutual funds, and fintech entities. These institutions facilitate credit, mobilize savings, provide insurance protection, enable investments, and ensure financial stability.

Before the introduction of GST, the BFSI sector operated under a complex indirect taxation framework involving service tax (14%), Swachh Bharat Cess (0.5%), and Krishi Kalyan Cess (0.5%), aggregating to 15%. Insurance, banking, and asset management companies paid multiple taxes at state and central levels. This structure created cascading effects, blocked input credits, and raised compliance difficulties.



The Goods and Services Tax (GST) was implemented on July 1, 2017, as a “One Nation, One Tax” reform. For the BFSI sector, GST brought both opportunities and challenges. The key features include:

- GST rate of **18%** on most financial services (higher than the pre-GST 15% service tax).
- Taxation on banking transactions such as processing fees, loan charges, ATM charges, and insurance premiums.
- Limited availability of input tax credit (ITC) due to exemptions on certain services.

This paper investigates the impact of GST on the BFSI sector, specifically focusing on compliance burden, revenue effects, sectoral performance, and consumer experience.

### Research Objectives:

1. To examine the structural shift in taxation for BFSI after GST.
2. To analyze the effect of GST on banking, insurance, NBFCs, and mutual funds.
3. To assess compliance and operational challenges in the BFSI sector.
4. To provide recommendations for improving GST policy in BFSI.

## 2. Literature Review

Several studies have evaluated GST’s impact on the Indian economy and financial services.

- **Sharma (2018)** argued that GST increased compliance complexity in BFSI due to the nationwide registration requirement.
- **Gupta & Jain (2019)** observed that banks struggled with IT systems integration for GST returns filing.
- **KPMG (2020 Report)** highlighted that GST increased costs in the insurance industry because input credits on certain services were not available.
- **RBI Reports (2017–2022)** show a consistent rise in GST revenues but indicate stress on financial services costs.
- **International Studies:** The European Union’s VAT experience in financial services shows similar challenges, particularly input credit restrictions.

The literature suggests that while GST has created transparency and unified taxation, BFSI institutions face higher compliance and cost pressures. However, there is limited research quantifying these impacts across subsectors like insurance and NBFCs, which this paper addresses.

## 3. Methodology

This study is based on **secondary data analysis**.

- **Sources:** RBI Handbook of Statistics (2017–2022), GST Council monthly revenue reports, Ministry of Finance annual reports, IRDAI, SEBI, and World Bank financial sector statistics.



- **Time frame:** 2017–2022 (five years since GST implementation).
- **Analytical Tools:** Comparative analysis (pre-GST vs post-GST), trend analysis, case study approach.
- **Limitations:** The study relies on secondary data; qualitative impacts like customer satisfaction are inferred from reports and surveys.

#### 4. GST Framework in BFSI

##### 4.1 Pre-GST Taxation

Before GST, financial services were taxed under **service tax at 15%**. Insurance, banking transactions, and mutual fund management fees all fell under service tax. Banks and insurers could not fully avail credit on input services (like IT software, consultancy), leading to tax cascading.

##### 4.2 Post-GST Taxation

- Most BFSI services are taxed at **18% GST**.
- Life insurance premiums are split: risk premium is taxable, investment portion exempt.
- Financial institutions with operations across India must register in each state, increasing compliance.
- Input Tax Credit (ITC) is restricted for exempt services, blocking significant credits.

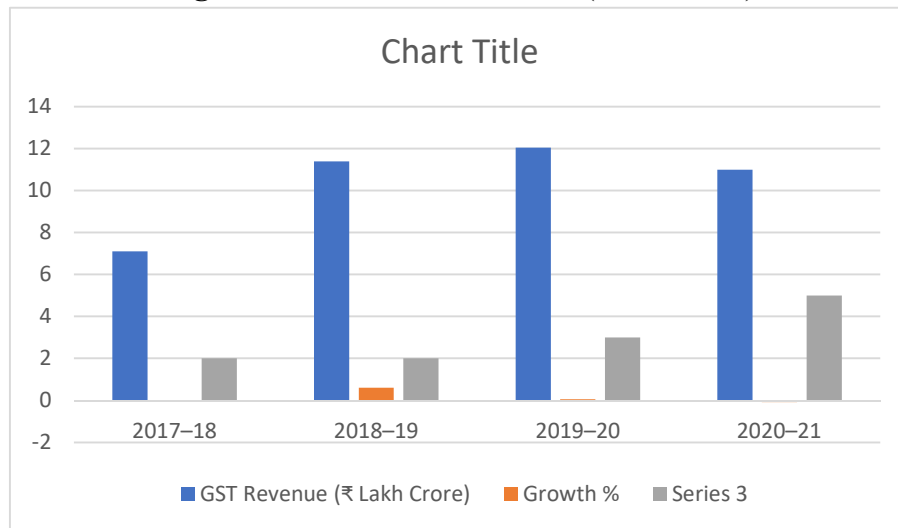
#### 5. Analysis and Discussion

##### 5.1 GST Revenue Trends in India

From 2017–18 to 2021–22, GST collections have steadily increased:

Year	GST Revenue (₹ Lakh Crore)	Growth %
2017–18	7.10	–
2018–19	11.39	+60.4%
2019–20	12.04	+5.7%
2020–21	11.00	-8.6%
2021–22	14.70	+33.6%

Figure 1: GST Revenue Trend (2017–2022)



The rising revenue demonstrates GST’s success in improving tax compliance. However, the BFSI sector’s higher tax rate (18% vs 15% pre-GST) has contributed to costlier services.

### 5.2 Impact on Banking Sector

- **Service Charges:** Processing fees, cheque book issuance, loan charges, ATM withdrawals now attract 18% GST.
- **Operational Costs:** Banks must file multiple returns across states. GST compliance costs for top banks rose by 15–20%.
- **Digital Banking:** GST on online payments increased transaction costs but encouraged banks to integrate IT with GSTN.

### 5.3 Impact on Insurance Sector

- Premiums on health, life, and general insurance are taxed at 18% (higher than earlier 15%).
- Input credit blockage increases costs for insurers.
- IRDAI reported a 12% increase in premiums post-GST due to tax hikes.

### 5.4 Impact on NBFCs & Mutual Funds

- NBFC loan processing fees and foreclosure charges attract 18% GST, raising borrowing costs.
- Mutual fund management fees are taxable at 18%, slightly reducing investor returns.
- Compliance cost is significant for NBFCs with pan-India operations.



## 6. Case Studies

### Case 1: SBI

India's largest bank had to upgrade its IT systems to integrate GST. The cost of compliance was estimated at ₹150 crore in the first year. Customers faced higher charges on processing and ATM services.

### Case 2: HDFC Life Insurance

GST on premiums increased policy costs by ~3%. Despite higher costs, transparency in taxation improved customer awareness.

### Case 3: NBFCs (Bajaj Finance)

Loan charges and late payment penalties under GST raised effective borrowing costs for retail borrowers. However, standardized taxation simplified interstate operations.

## 7. Challenges and Issues

1. **Compliance Burden:** State-wise GST registration and return filing is time-consuming.
2. **Input Tax Credit Blockage:** BFSI services often exempted, leading to blocked credits.
3. **Costlier Services:** Higher 18% GST rate burdens customers.
4. **Double Taxation Issues:** Composite supplies sometimes taxed ambiguously.
5. **Technology Gaps:** Smaller NBFCs struggled with IT system upgrades.

## 8. Policy Recommendations

1. **Simplify GST Returns** for BFSI with centralized registration.
2. **Reduce GST Rate** on essential financial services like insurance and banking charges from 18% to 12%.
3. **Allow Wider Input Tax Credit** to reduce cascading effects.
4. **Strengthen IT Infrastructure** of GSTN to handle large BFSI data.
5. **Awareness Campaigns** for consumers about tax components on financial products.

## 9. Conclusion

GST has transformed India's taxation system, introducing transparency and uniformity. For the BFSI sector, however, the transition has been challenging. While compliance and IT costs increased, the long-term benefits include reduced tax evasion and more standardized taxation. The study concludes that GST has had a **mixed impact** on the BFSI sector: positive in terms of transparency and standardization, but negative due to compliance complexity and higher service costs. The future of GST in BFSI depends on policy reforms aimed at rate rationalization and credit availability.



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