

Free banking services offered to customers not under GST ambit

The ambiguity arose after notices were sent to lenders for non-payment of service tax under the pre-GST regime

In relief for the banking sector, the government cleared the ambiguity over goods and services tax (GST) on 'free services' offered to customers. The Centre said these will not attract GST.

The ambiguity arose after notices were sent to lenders for non-payment of service tax under the pre-GST regime. That issue is yet to be sorted, though the government has given enough signals that these notices might be withdrawn.

In 32 pages of 'Frequently Asked Questions' (FAQs) for the financial services sector, issued on Sunday, the Central Board of Indirect Taxes and Customs (CBIC) clarified there would be no levy on services provided without consideration (free) to other than related/distinct persons. Government answered 91 in FAQs

In other important clarifications, CBIC has noted that ATM machines do not trigger a GST registration liability—they are not a place of business. Besides, derivatives, forward and futures contracts are not subject to GST, it said. Only service charges or brokerage would be.

The move on free services by banks is in contradiction to notices issued by Directorate General of Goods and Services Tax Intelligence offices to at least 20 private, multinational and public sector banks, to explain why they should not pay service tax, penalty and interest on 'free services' offered to customers between July 2012 and June 2017, a period prior to rollout of GST.

Banks mandate maintenance of a minimum balance in deposits and, in turn, offer free services such as cash withdrawal from ATMs, cheque books, account statements, internet banking, debit cards, and PIN change. CBIC officials had earlier justified the notices arguing that banks were not offering 'free services' but actually charging customers by asking them to maintain a minimum account balance and penalising them if it was otherwise.

The notices might now go to a common adjudicating authority, as all banks are affected in the same way. The department of financial services had opposed the move to tax banks for providing these 'free services' to customers.

At the time of GST implementation last year, United Bank, Karur Vyas Bank and Sumitomo Mitsui Banking Corporation had sought clarity from the then Central Board of Excise and Customs on the levy that might apply on services provided free of cost to customers.

KEY CLARIFICATIONS

- 1.ATM machines do not require GST registration
- 2.Services provided by banks to RBI are liable to GST

3. Derivatives, futures and forward contracts are not subject to GST

4. Additional interest charged for default in payment of instalment in respect of any supply, which is subject to GST, is liable to GST

5. Life insurance policies issued to NRIs where premium is received from non-resident external bank account taxable

(Business Standard)