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A Study on Impact of GST on Banking Industry

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ABSTRACT:

The implementation of Goods and Services Tax (GST) has brought significant changes to the banking industry in India, impacting various aspects of operations and customer experiences. This study investigates the multifaceted effects of GST on banking, drawing insights from survey data and statistical analyses. Findings reveal that while a majority of respondents Favor GST for its comprehensive coverage and transparency, challenges such as increased compliance costs and complexities in inter-branch transactions have emerged. Despite initial hurdles, banks have adapted to GST, leveraging its benefits like input tax credits and improved online transactions. However, concerns regarding higher tax rates on banking services persist, affecting customer satisfaction. Suggestions include revisiting tax rates to enhance customer happiness and educating the public on GST to streamline processes. Overall, the study highlights the transformative impact of GST on the banking sector, underscoring the need for ongoing adjustments to optimize outcomes.

Keywords: GST, banking industry, tax regime, compliance, customer satisfaction, adaptation

INTRODUCTION

In order to pay for public works, infrastructure, and services, the Indian government imposes taxes on both individuals and corporations. The two types of taxes in the system are direct and indirect, and each has its own payment obligations and methods.

Tax Organization

The Central Government, State Governments, and Municipalities are the three main taxing authorities in India. The management of state affairs and the funding of government operations depend heavily on these taxes.

Taxes, Both Direct and Indirect

In India, taxes are classified as either direct or indirect depending on how they are administered and who is liable for paying them.

Taxes Directed

Individuals and organizations pay direct taxes to the government directly. These consist of wealth tax, corporation tax, and income tax. Straightforward.

REVIEW OF LITERATURE

Ambast, Bhadouria, and Gupta (2024) studied GST's financial impact on education, hospitality, and logistics. They found minimal effect on education due to GST exemptions, increased expenses and reduced margins in hospitality from higher luxury taxes, and benefits for logistics from a simplified GST system.

Bansal, Shrivastava, and Kumar (2024) investigate GST's introduction in India, noting its unification of multiple indirect taxes into one system to simplify taxation, curb evasion, and boost efficiency. Studies reveal improved transparency and reduced tax cascading, with mixed public reactions to initial implementation challenges and compliance costs, extensively studied across sectors.

Maheshwari and Mani (2023) reviewed 114 studies on GST's impact on India's economy. Their analysis revealed mixed effects: positive outcomes for textiles, automotive, healthcare, logistics, manufacturing, retail, and agriculture; challenges for insurance and electricity; and varied impacts on real estate, banking, FMCG, IT, and e-commerce sectors.

J. A. Kaur (2022) highlights GST as a transformative tax reform in India, streamlining the tax structure, enhancing compliance, and facilitating business. This reform has positively impacted banking, manufacturing, agriculture, and food processing. The GST Council ensures consistent tax rates, and comparisons with France illustrate GST's potential benefits.

Shetty, Spulbăr, Birau, and Ninulescu (2022) examine GST's impact on India's banking sector, noting increased tax rates on banking services and operational challenges due to decentralized registration, leading to higher compliance costs and IT investments.

Srivastava, Rastogi, Srivastava, and Rushdi (2022) review the GST reform in India, highlighting its shift to a consumption-based tax system and the introduction of Input Tax Credit. Their study aims to compare GST with VAT across industries, enhancing understanding of its implications.

Harishekar and Manoj (2021) studied GST's impact on SMEs in Bangalore's Peenya Industrial Area. They found that GST aims to simplify taxes, enhance transparency, and improve compliance by replacing multiple indirect taxes. While intended to reduce costs and improve efficiency, empirical results for SMEs are mixed.

Tekwani, Rana, and Raghuvanshi (2021) investigate GST's impact on handicraft exporters in Jaipur, aiming to clarify its positive effects. Through correlational analysis, they find significant influence of GST variables on export ease, emphasizing implications for stakeholders and policy-making.

Khan and Naeem (2020) investigate challenges in GST implementation, such as SME compliance burdens, IT support needs, and dual government administration complexities. Despite long-term benefits, initial disruptions and mixed public reactions persist.

Bhattarai (2020) examines the effects of India's GST using a Dynamic CGE model, anticipating improvements in resource allocation, income and employment growth, and income distribution. The study suggests GST will foster specialization, transparency, and infrastructure development, promoting equitable growth.

RESEARCH METHODOLOGY:

Research Problem

The study investigates the impact of the Goods and Services Tax (GST) on the banking industry in Hyderabad. It aims to understand changes in taxation procedures, transaction processes, and overall financial implications for banks and customers.

Objectives of the Study

1. To analyse the impact of GST on the banking industry with a focus on Hyderabad, examining changes in taxation procedures, transaction processes, and financial implications for banks and customers.

2. To determine the perception of bank employees regarding GST implementation, including their experiences, opinions, and challenges during the transition phase.

3. To measure customer satisfaction with services provided by banks after GST implementation.

Need for the Study: The study addresses the necessity of understanding the effects of GST on the banking sector, providing insights for policymakers, bankers, and customers. It emphasizes the importance of adapting banking practices to comply with new tax regulations and suggests areas for improvement. It highlights the need for ongoing education and training to ensure smooth GST implementation and operation in the banking industry.

Scope of the Study: The study focuses on the impact of GST specifically in the banking sector within Hyderabad, suggesting potential for broader studies to encompass other regions and sectors. Future research could explore the long-term effects of GST on banking operations, customer behaviour, and industry profitability. Comparative studies could evaluate how different regions or countries have implemented GST in their banking sectors and the lessons learned.

Sources of Data: Data were collected through both primary and secondary sources:

- **Primary Data**: Collected afresh through informal interviews and structured questionnaires.
- **Secondary Data**: Gathered from various publications, including banks' websites, government reports, journals, newspapers, books, and magazines.

Sample Size and Profile of the Sample

- Sampling Procedure: Convenience Sampling
- Sample Size: 100 respondents were chosen at convenience to participate in the study.

Tools for Analysis

The data acquired using the convenience sampling approach were analysed using SPSS Software. The following tools and techniques were employed: Chi-Square Test, Regression Analysis and Correlation Analysis

Limitations of the Study

- The study is limited to the specific context of Hyderabad and may not fully represent the broader impact of GST on the banking sector across all regions of India.
- The findings may be influenced by the sample size and demographics of the respondents, potentially limiting the generalizability of the results.
- The study may not capture all nuances and complexities of GST implementation in the banking sector, leaving room for further research and exploration.

INDUSTRY PROFILE

The banking industry has a rich history dating back to ancient civilizations, evolving to meet society's changing needs. Around 2000 BCE in Mesopotamia, temples and palaces safeguarded grain and precious metals, establishing early asset protection. In ancient Egypt, temples issued receipts for stored valuables, leading to early forms of paper money. Ancient Greek "trapezitai" and Roman "argentarii" acted as early bankers, facilitating loans and currency exchanges.

In medieval Europe, moneychangers and goldsmiths conducted banking activities, providing secure storage and issuing receipts that evolved into banknotes. The Medici family in Florence pioneered modern banking services during this period. The Renaissance saw banking expand across Europe, with institutions like the Bank of Amsterdam (1609) and the Bank of England (1694) playing key roles.

The Industrial Revolution brought significant changes, with banks financing industrial projects and supporting economic growth. The 20th century saw the development of a regulated banking system, with central banks overseeing monetary policy and regulating commercial banks. Technological advancements, such as computerization and electronic banking, transformed banking operations and customer services.

Commercial banks are crucial to the economy, providing loans to individuals and businesses. However, loan defaults can significantly impact profitability. Non-performing loans (NPLs) reduce principal and interest income, affecting revenue and deteriorating asset quality. Increased NPLs make it harder for banks to attract deposits or access funding at favorable rates. To mitigate loan defaults, banks employ strategies like credit risk assessment and stricter lending criteria.

The banking industry is vital to the global economy, offering financial services, facilitating transactions, and supporting growth. Banks include commercial, investment, retail, central, and cooperative banks. They generate revenue through interest, fees, foreign exchange transactions, and trading activities. Effective risk management and technological advancements, such as online banking and digital payments, are crucial.

In India, the banking sector significantly contributes to economic growth and stability. Public banks, owned by the government, serve the public interest, while private banks, owned by private entities, are profit-oriented. Both types are regulated by the Reserve Bank of India (RBI), ensuring monetary stability, regulating the banking sector, managing currency, and promoting financial inclusion and economic development.

Data Analysis:

Objective 1:

Determine the perception of bank employees regarding the implementation of GST

Null Hypothesis (H_0): Bank employees' overall experience regarding the implementation of GST are not influenced by the transition process, services, and other aspects.

Alternative Hypothesis (H_1): Bank employees' overall experience regarding the implementation of GST are influenced by the transition process, services and other aspects.

Hypothesis	Regression Weights	Beta Coefficient	R^2	F	t-value	p-value	Hypotheses supported
H_1	Feeling-OE	.159	.859	114.524	2.768	<.001	Yes
	Services-OE	.566	.859	114.524	8.138	<.001	Yes
	Transition-OE	.406	.859	114.524	4.299	<.001	Yes
	Job easier-OE	.229	.859	114.524	3.103	<.001	Yes
	Cost-OE	-.430	.859	114.524	-3.752	<.001	Yes

Interpretation:

The hypothesis if feeling, services, transition, job easier, cost has significant impact on overall experience of bank employee. The dependent variable Overall experience was regressed on predicting variables such as feeling, services, transition, job easier, cost to test the hypothesis. Feeling, Services, Transition, Job easier and cost are significantly predicted Overall Experience, $F = 114.524$, $p < 0.001$, which indicates that the feeling, services, transition, job easier, cost can play a significant role in shaping overall experience. These results clearly direct the effect of the variables. Moreover, the $R^2 = .859$ depicts that the model explains 85.9% of the variance in overall experiences.

Hence, the research failed to accept H_0.

Objective 3:

To Measure the customer satisfaction on GST implementation, such as services provided by bank after GST implementation.

Null Hypothesis (H0): There is no correlation between GST implementation and customer satisfaction with the services provided by banks.

Alternative Hypothesis (H1): There is a significant correlation between GST implementation and customer satisfaction with the services provided by banks.

Correlation

Correlation

		Reaction	Services for customer
Reaction	Pearson Correlation	1	.904**
	Sig. (2-tailed)		<.001
	N	100	100
Services for customer	Pearson Correlation	.904**	1
	Sig. (2-tailed)	<.001	
	N	100	100

**.Correlation is significant at the 0.01 level (2-tailed).

Interpretation

The correlation of GST implementation and customer satisfaction was found to be very high positive and statistically significant ($r = 0.904$, $p<0.001$).

Hence, the research failed to accept H_0. This shows that improvement in GST rules would lead to a higher satisfaction of the customers.

FINDINGS

- Because the Goods and Services Tax (GST) covers the whole supply chain from manufacture to consumption, the majority of respondents (74%) support it.
- Value Added Tax (VAT) is preferred by 36% of respondents over GST because they believe it to be simpler, particularly for offline purchases.
- 48% of respondents say they are very satisfied with the post-GST experience, which they attribute to the switch to online transactions and the subsequent decrease in paperwork.
- One important reason for the GST's adoption is its transparency; in contrast to other tax regimes like excise and service tax, respondents noted that the GST's compliance requirements are simpler.
- Banks are responding favorably to the Goods and Services Tax (GST), as indicated by 72% of respondents who said banks are making good use of the benefits of the GST, such as input tax credits.
- Registering more than once in a new state is a moderate challenge, and banks are very concerned about the accompanying costs.
- Since the introduction of the GST, compliance costs have increased, requiring expenditures in technology, training, and adherence to governmental laws.
- The GSTN site is well known for offering good service and enabling banks to use it more advancedly.
- Citing the impact on transaction costs, nearly half (48%) of respondents disapprove with the additional GST imposed on bank transactions.
- In terms of how challenging their occupations are, respondents' perceptions have remained neutral since the implementation of GST.
- Of those surveyed, 42% are happy with how well the switch from the VAT to the GST system went.
- Of the respondents, 52% found the GST documentation to be tiresome, which emphasizes the necessity of a lot of paperwork and filing.

- The majority of respondents (58%) said they depend on outside consultants for help with GST-related issues, highlighting the need for specialist knowledge.
- Sixty-two percent of respondents said it was difficult to register each branch separately, which adds to the workload of bank staff.
- Portal operation is ensured by effective IT infrastructure, which facilitates successful GST transactions.
- A third of the participants ascribe a rise in bank earnings to the implementation of Goods and Services Tax (GST), citing aspects like efficient loan management.
- Regular loan repayments following the GST hike are credited with fostering consumer wealth and financial stability through openness.
- The user-friendly characteristics of the GSTN interface lend credence to 38% of respondents' claims of having a moderate understanding of routine GST transactions.
- Following the GST, customers' responses to higher tax rates have not changed, showing their continued prosperity and financial stability.
- According to the regression analysis, there is a strong statistically significant correlation between these variables and the total experience ($F = 114.524$, $p < 0.001$). This suggests that the way bank employees feel about their work, the caliber of services they receive, the ease with which they can switch between activities, the simplicity with which they can carry out their jobs, and the financial considerations all play a major role in determining how they perceive their work overall.
- Based on the coefficient of determination ($R2 = .859$), it can be inferred that the model explains roughly 85.9% of the variation in the overall experiences of bank employees. This suggests that feeling, services, transition, job ease, and cost together account for a significant amount of the variety seen in bank employees' overall experiences, demonstrating the model's great explanatory power.
- The results lend credence to the hypothesis (H1) that feeling, services, ease of transfer, cost, and job ease influence bank employees' overall experience. The significance of tackling these aspects to improve the overall experience and contentment of bank staff is highlighted by these findings.
- The application of GST and customer satisfaction show a very strong positive link, as indicated by the correlation coefficient (r) of 0.904. This implies that customer happiness tends to rise significantly as GST regulations get better.
- A p-value of less than 0.001 signifies the statistical significance of the observed correlation. This indicates that there is very little probability that the substantial association between the adoption of the GST and consumer satisfaction was seen by accident.

SUGGESTIONS

- The study reveals that home loan tax rates have increased, frustrating consumers compared to the previous regime. Currently, a standard 18% tax rate applies to all banking products and services. Reducing service charges could significantly boost customer satisfaction and potentially increase banking activity.
- While GST has ensured nationwide consistency, it has also raised the tax on banking goods and services significantly. Consequently, the cost of these services has increased. It is recommended that GST for low-income groups should be applied at a reduced rate to alleviate this burden.
- Transactions between branches of the same bank in different states are subject to IGST, complicating processes due to numerous inter-branch transactions. To ease this, banking services should be classified under GST regulations, ensuring that the value of such transactions is considered Nil, simplifying compliance for banks.
- Under the observation it shows that the necessity to educate the basis GST system to the common people so that it will be easy and time consuming for the employees or else they need to explain about the tax imposed in the bill.
- All the uneducated people should be well educated about the Goods and Service Tax and its processing for a better cause.

CONCLUSION

The study concludes that imposing a consistent tax on all goods and services and adopting GST is a challenging yet crucial step toward sustainable banking. It highlights the banking sector's difficulties in implementing GST, requiring banks to register transactions in every state. All services are uniformly taxed, impacting input tax credit, checks, loans, and investments, raising service costs for consumers but generating significant revenue for the Indian banking industry. Previously tax-free transactions between a bank's branches in different states are now subject to IGST. The banking industry has adapted to these changes and is now operating smoothly under the current tax rates.

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