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## A Study on the Effect of GST Reforms 2.0 on the Banking Sector

**Sunil S**

Research Scholar, Department of Studies and Research in Commerce, Tumkur University, Tumakuru-  
572103

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Assistant Professor of Commerce, Government Home Science College for women, Holenarasipura –  
573211, Email:sunilsgfgc@gmail.com, Orcid ID: 0009-0005-8979-2167

**Dr. Devarajappa S**

Professor of Commerce, School of Business Studies, Central University of Karnataka, Kalaburagi –  
585367, Email:devutta@gmail.com Orcid ID: 0000 - 0003 - 1104 - 3914

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**DOI : <https://doi.org/10.5281/zenodo.17307347>**

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### ARTICLE DETAILS

**Research Paper**

**Accepted:** 21-08-2025

**Published:** 20-09-2025

**Keywords:**

*GST Reforms 2.0; Banking Sector; Compliance; FinTech; RegTech; Digital Transformation; India*

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### ABSTRACT

In India, Goods and Services Tax (GST) Reform 2.0 progresses the digitalization of industries and strengthening compliance across industries through the increasing rollout of regulatory technology processes (RegTech). Most GST reform discourse has focused on trade, manufacturing, and services industries. However, the banking industry has acted as a vital node in ensuring that businesses have efficiently complied with the implementation of GST pathways. This document discusses the aspects of the multifaceted and significant implications of GST Reforms 2.0 for the banking industry in services such as compliance mechanisms, costs, impacts, service delivery, technological positioning or integration and RegTech. A descriptive and analytical research methodology using secondary data sources were utilized by discussing how banks were making use of e-invoicing, real-time reconciliations and emerging RegTech frameworks. The findings indicate that while GST 2.0 facilitates compliance initiatives for banks due to the multitude and scales of transactions and business

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state-wise registrations, it also opens up pathways to operational efficiencies, digital transformation capabilities and improved transparency. The final sections contain recommendations and implications regarding policy tools to assist with smoother compliance procedures for GST 2.0 and help banks take full advantage of their obligations to accelerate successful GST and the capital accumulation impact on value added to the economy.

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## 1. Introduction

The introduction of the Goods and Services Tax (GST) in 2017 represented a watershed moment in India's indirect tax system and created an overarching framework for indirect taxation (Government of India, 2017). The GST Reforms 2.0 imply that GST is entering a paradigm of digitization beyond the first GST cycle and new pillars of e-invoicing, automation, and analytics that could make for a very efficient indirect tax structure. The impact for the banking sector is one of both opportunities and challenges. While banks are likely to improve on key areas for customer service and automation with more digital ecosystems focused on transparency and enforcement, they also face multifaceted compliance considerations given their operational reach across state lines and the volume of transactions (OECD, 2020). E-invoicing is a key part of GST Reforms 2.0 that requires machine-readable e-invoices that are verified and validated in real-time by GST Network (GSTN, 2021). Several studies and industry reports have recognized e-invoicing to reduce reconciliation gaps, fraudulent activity, and taxation errors in the creation and traceability of input tax credits available for use (PwC, 2021). For the banking sector, the e-invoicing solution should reduce mismatches and improve compliance; something that is especially important to banks as they process a large number and variety of transactions on a daily basis (KPMG, 2022). Understanding the banking sector's experience in relation to GST Reforms 2.0 is essential for all involved and affected parties namely: policymakers (government), regulators, and financial institutions.

## 2. Literature Review

The Goods and Services Tax (GST) was spearheaded in 2017 to combine India's fragmented indirect tax system and reduce cascading effects on taxes (Government of India, 2017). Recent discussions have moved toward "GST Reforms 2.0" focused on e-invoicing and automation with data-driven workflows and compliance (Deloitte, n.d.). These GST 2.0 reforms signal a digital transformation in India's tax architecture trying to reduce compliance costs, while expanding GST compliance binders. Banks face



unique challenges under GST due to their national footprint and the place-of-supply regulations for financial transactions. These processes require many state-based registrations, and they are significantly more complicated and costly than similar procedures in other industries (Rao & Mukherjee, 2019). GST 2.0 introduces granular support and API-driven reporting, as well considerably more complexity to operations, and requires considerable enhancement of technology and reconfiguration of processes (Reserve Bank of India, 2023). Growth of FinTech and RegTech face help to ameliorate compliance challenges. RegTech uses automated platforms to minimize manual processes to tax classification, e-invoice generation, and reconciliations (KPMG, 2022). The GST Suvidha Provider (GSP) ecosystem is an example of this as a digital connection between bank systems to the GSTN (GSTN, 2022). These solutions correspond with international evidence that indicates how digital tax administration tools can increase compliance efficiency that will improve governance (OECD, 2020). While GST changes resulted in additional costs (IT investment, consulting fees, additional staff) for banks during the early stages due to large compliance costs, those banks saw long term benefits that included reconciling in hours instead of days, better quality reporting, and quicker turnaround of GST related services (PwC, 2021). However, banks still contend with significant challenges related to cybersecurity risks and the digital readiness of smaller financial institutions which may hinder uniform compliance (KPMG, 2022). These financial stability risks emphasize the need greater data governance frameworks, capacity building and a standardization of compliance processes and reporting requirements controlled by government. A good deal of policy and practitioner literature exists regarding GST and the impact on businesses, but few empirical studies have been written that examine GST 2.0 and whether the banks have benefited from the reform, specifically, with regards to compliance costs per transaction, notices of evaluation and the impact on customers of GST based services. A relationship has existed between adopting solutions by RegTech companies and measured compliance efficiency but this area requires more exploration. Expanding the existing empirical literature will inform the current study.

### 3. Research Gap

While significant policy papers and practitioner reports discuss compliance implications of GST Reforms 2.0 on the banking sector, and while compliance costs and methods can be calculated, empirical studies are limited, and studies that measure the direct impacts of GST 2.0 are nil. Existing studies only focus on a descriptive analysis of the regulatory changes and including digital tools to ease compliance (KPMG, 2022; PwC, 2021). However, there is minimal evidence of measuring compliance costs by the bank for its operations by a measure. Likewise, studies fall short measuring instance of GST-disputes



between banks and the tax authority (Rao & Mukherjee, 2019). Further, while the transformative potential of RegTech and FinTech is considered a factor in compliance (OECD, 2020), systematic studies where technology is adopted as a measure of business compliance efficiency is neglected in studies that focus on banking.

#### 4. Objectives of the Study

1. To analyze the compliance challenges faced by banks under GST Reforms 2.0.
2. To examine the impact of GST 2.0 on operational efficiency in banking services.
3. To evaluate the role of FinTech and RegTech solutions in easing GST compliance for banks.
4. To explore the implications of GST reforms on customer service and product pricing in the banking sector.

#### 5. Research Methodology

This study takes a descriptive and analytical research design and uses secondary data. Data were taken from GSTN reports, Reserve Bank of India (RBI) bulletins, circulars, and peer-reviewed journal articles, to do a comparative study of compliance processes before and after GST Reforms 2.0. Some case examples of compliance policy management from large banks are included in the paper to demonstrate how FinTech and RegTech tools are being used.

#### 6. Findings and Discussion

**Table 1. Effect of GST Reforms 2.0 on Key Banking Dimensions**

Dimension	Pre-GST 2.0 Scenario	Post-GST 2.0 Impact
Compliance	Manual-heavy, state-specific filings	Automated filings, e-invoicing, API-driven reconciliations
Operational Efficiency	Higher error rates and delays	Improved accuracy, reduced timelines
Customer Service	Slower turnaround in GST-linked services	Faster processing through digital platforms
Technology	Limited automation and manual	Adoption of RegTech and FinTech



Integration	reconciliations	solutions
Risk & Governance	Less focus on digital security in compliance	Emphasis on cybersecurity, audit trails, and privacy norms

## 7. Discussion

1. **Compliance Challenges:** Multiple state-wise registrations and frequent GST updates increase compliance costs for banks (RBI, 2023).
2. **Operational Impact:** Banks benefit from digitized reconciliations and automated filings, leading to efficiency gains (GSTN, 2022).
3. **Role of FinTech and RegTech:** Advanced compliance solutions reduce manual intervention and enhance reporting accuracy (PwC, 2021).
4. **Customer Service:** Faster GST-related service delivery improves customer satisfaction but increases dependency on digital infrastructure.
5. **Opportunities and Risks:** GST 2.0 offers efficiency and transparency but raises cyber-security and adoption challenges.

## 8. Conclusion

GST Reforms 2.0 have created significant impacts to the banking sector by adding complexity to compliance and already driving it to digital. Banks have adopted FinTech and RegTech solutions to help meet compliance, improve transparency and better service delivery. However, challenges are still facing regulators in terms of regulatory burden, data security, and cost of adaptation to new technologies. A balanced and holistic approach to supporting an enablement agenda from policy, to innovation through technology and capacity, is required to assist banks harnessing the full benefits of GST reforms.

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