



A Study of Goods and Services Tax and its Impact on Banking Sectors in India

Sohan Kumar Rajak¹

¹Assistant Professor, Faculty of Commerce, Hindu College, Moradabad, Affiliated to Guru Jambheshwar University Moradabad, Email: skrajak@hinducollege.edu.in

Prof. Nishat Ullah Khan²

²Professor and Former HOD, Faculty of Commerce, Hindu College, Moradabad-244001, Former Dean & Convener, Faculty of Commerce, MJP Rohilkhand University, Bareilly & Guru Jambheshwar University Moradabad, Email: nishatullahkhan63@gmail.com

DOI : <https://doi.org/10.5281/zenodo.19654210>

ARTICLE DETAILS

Research Paper

Accepted: 30-03-2026

Published: 10-04-2026

Keywords:

Indian Economy, Goods and Service Tax, banking industry, tax regime, compliance, customer satisfaction, adaptation etc.

ABSTRACT

This research intends to show how the Goods and Services Tax (GST) has affected various parts of the Indian economy. July 1, 2017, is the scheduled implementation date of the Goods and Services Tax, the most recent kind of indirect tax. As a sales tax system, it is now being examined by several countries throughout the world. The Goods and Services Tax (GST) would be applied across the India, from production to distribution to consumption. Many consider it the most significant change to indirect taxes since 1947. The Goods and Services Tax would revolutionize India's indirect tax system if implemented. A unified national market might be made possible by consolidating many federal and state taxes into one, which would reduce the likelihood of cascading or double taxation. The service industry is anticipated to be the most affected by GST compared to other sectors. Among India's many service industries, banking ranks high. Business dynamics in the banking sector would be considerably different from those in other sectors, and the industry plays a crucial part in the monetary policies of the country's overall framework. This study aims to use secondary data to determine how GST has affected banking sector in India. The most Indian people



support GST because of its simplicity, fairness, accuracy, simple procedure and accountability. However, new problems have been arisen in GST system, including higher compliance costs and more complicated inter-branch transactions. Banks have accepted GST challenges and working accordingly in the compliance of GST system in India as per GST Act and providing the facilities to the customers as per law such as input tax credits and better online transactions. But some customers are not still satisfy with the GST system in India due to higher tax rates on banking services. Taken as a whole, the research shows how GST has revolutionized the banking industry and how constant regulate banking system to improve its performance according to GST system. The purpose of this article is to provide a synopsis of the Goods and Services Tax (GST) and its effects on the several sectors that make up India's economy. The Goods and Service Tax in India can be better understood by reading this paper, which will provide information on its background, goals, effects, and consequences.

1. Introduction:

The stability and expansion of the Indian economy are greatly aided by the banking industry. The primary goal of privately held banks is to maximize profits, while the public interest is served by publicly owned banks. For the sake of monetary stability, banking sector regulation, currency management, financial inclusion, and economic development, the Reserve Bank of India (RBI) oversees both kinds.

By providing banking services, easing transaction processing, and bolstering economic growth, the banking industry plays an essential role in the world economy. Retail, commercial, investment, central, and cooperative banks are all types of financial institutions. They make money by trading, interest, fees, and foreign exchange operations. It is critical to have efficient risk management systems in place and to make use of technology developments like digital payments and online banking.

Civilizations have always had taxes. To enable a government to carry out its conventional duties, engage in development and welfare initiatives, and provide public goods to meet the collective demands of its citizens, taxes are imposed. It must also cover the costs of its own administration. The Goods and Services Tax would revolutionize India's indirect tax system if implemented. A unified national market



might be made possible by consolidating many federal and state taxes into one, which would reduce the likelihood of cascading or double taxation. Administration and enforcement should be made easier by the tax's simplicity. The phrase "One Tax, One Nation and One Market" describes GST. Every industry in the country, particularly the service sector, is feeling the effects of GST. We have made an effort to understand how the banking sector would be affected by the adoption of GST. The banking industry is crucial to a country's progress. For the simple reason that monetary resources are essential to any enterprise. The public can deposit funds into banks, and those in need can borrow money from those banks. Changes in globalization, deregulation, technology, and institutional, legal, and taxation policies are having a profound impact on India's banking industry.

The primary goal of the Goods and Services Tax (GST) is to create a consolidated system of sales and production taxes at the federal and state levels. In its most basic form, the Goods and Services Tax (GST) seeks to eliminate all other forms of taxation. Once the Goods and Services Tax (GST) is in place, consumers will not be subject to any additional taxes on the products and services they purchase, resulting in significant tax savings. These days, no one can avoid paying their fair share of state and federal taxes on the goods and services they purchase.

1.1 GST Impact on Banking Transaction Charges: As of May 1, 2025, there is a fee of ₹23 per transaction + 18% GST for ATM withdrawals that surpass the free monthly limit. Any ATM withdrawal from your own bank or any other bank will incur this cost. The standard price for non-monetary transactions like balance inquiries is approximately ₹8.5 + GST.

- **Free limits:** We can usually get 5 free withdrawals per month from your own bank's ATMs and 3–5 free withdrawals from other banks' ATMs, though this varies by area (metro vs. non-metro).
- **Charges after limits:** ₹23 per cash withdrawal (+ 18% GST).
- **Non-financial fees:** Approx. ₹8.5 - ₹10 (+ 18% GST).
- **International fees:** A 3.5% cross-currency markup + 18% GST is often applied to international ATM withdrawals.

1.2 GST Impact on Banking Loans: There is no possibility that the tax percentage will rise above the 18% slab, according to information, and all loans are taxed under GST at that rate. The home loans that borrowers took out were originally accessible at a VAT rate of 5% for building materials and 3.5% for services, for a total of 8.5. However, this rate has now been changed to 18% according to the GST rate,



which means that the borrowers will have to pay a bit more. Additionally, lenders and banks may decide to raise the interest rates they charge on house loans.

1.3 GST Impact on Banking Investments: The implementation of GST has a detrimental impact on investment vehicles such as mutual funds. Consumers will undoubtedly feel the effects of the Goods and Services Tax (GST) on mutual fund income. An expense ratio is a fee that investment companies experience when they run their mutual funds. With a 3% rise, the Goods and Services Tax will now be applied to the mutual funds' Total Expense Ratio. Assuming a household spends Rs. 50,000 per annum on insurance (not including service tax), their expenditures will rise by 3%, or Rs. 1500, due to the high premiums they are required to pay. Mutual fund distributors would continue to enjoy a tax exemption on earnings up to 20 lakh rupees.

1.4 GST Impact on Banking Insurance: Premiums for most insurance products, including auto, health, and life, go up when GST is in place. Taxes are now 18% under GST, up from 15% before. Consider the impact of an 18% tax rate on a life insurance premium in its entirety.

1.5 GST Impact on Input Tax Credit: The cost of capital will rise due to the fact that under GST, they will be able to recoup just half of the CENVAT credit that they originally used to pay for inputs, input services, and capital items. Once your supplier has deposited the tax he earned from you, you can claim it as an input tax credit under GST. Prior to its claim, it must be matched and validated. Therefore, all suppliers are required to be registered under GST.

1.6 GST Rates Imposed By Banks:

- Pension-not taxable
- Deposits -not taxable
- Debit and credit cards -18%
- Loan -18%
- Investments -18%
- Banking facilities – 18%
- Remittances (RTGS, NEFT) – 18%
- Insurance -18%
- ATM – 18%
- Input tax credit -18%
- Foreign exchange – 1% of gross rupee.



1.7 Issues and Challenges of Banking Sector

- **Separate registration for each state where they operate:** All of India's banks were required to register their branches centrally prior to the introduction of GST. Financial institutions with locations in more than one state must register with the GST in each of those states where they have a presence. The increased number of audits and assessments, as well as the need to file separate returns for each state, adds another layer of compliance work. A total of sixty-one returns are required each year under GST, up from thirty-two under service tax. This works out to five monthly returns plus one yearly return.
- **Determining place of supply could be critical:** According to the supplier's records, the location of the service recipient is considered the site of provision for banking services. The location of the service provider is considered the site of supply in the event that the supplier does not have the recipient's address on file. But the legislation doesn't specify what the "records of the supplier" are, therefore there are several schools of thought on whether they include financial data, information on customers or vendors, or some other type of document.
- **Interstate transaction between the same banks at two branches is taxable:** Any money that changed hands between different branches of the same bank did not have to pay service tax. Nonetheless, the Goods and Services Tax (GST) will apply to this.
- **Assessment and adjudication made rigid:** The state regulators in charge of service taxes assessed the particular bank based on its registration. Each GST-registered bank branch is currently required to provide an explanation for why it is using input tax credit in one state and how it stands on chargeability in another. Before the implementation of GST, a taxpayer would have to deal with the decision of a single body. Now that the GST regime has many adjudicating authorities, it's possible that their views on the same fundamental issue would differ.
- **Actionable claims:** There was no tax due on actionable claims prior to the advent of GST because they did not attract tax. The definition of "supply of goods" has expanded to encompass actionable claims since the GST was implemented. B2C and B2B services offered through discounted bills to securitization are now subject to taxation.
- **Interest is taxable:** Interest income and discounts provided by banks were not taxable under service tax prior to the advent of GST since they were on the negative list. However, services, which may include interest, are now broadly defined under GST to include anything other than products. Interest is not subject to GST in any other countries; India is unique in this regard.

2. Review of Literatures:



Ambast, Bhadouria, and Gupta (2024), investigated the monetary effects of GST on the sectors of logistics, education, and hospitality. They discovered that a streamlined GST system benefited logistics, that greater luxury taxes raised expenses and decreased profits in the hospitality industry, and that GST exemptions had little impact on education.

Bansal, Shrivastava, and Kumar (2024), examine the implementation of GST in India, focusing on the consolidation of numerous indirect taxes into a single system in order to enhance efficiency, reduce evasion, and simplify tax regulation. It has been extensively studied across sectors, and studies have revealed improved transparency and reduced tax cascading, as well as varied public reactions to initial implementation challenges and compliance costs.

Maheshwari and Mani (2023), the impact of GST on the Indian economy was the subject of 114 studies being reviewed. Mixed effects were identified in their analysis, including positive results for the textiles, automotive, healthcare, logistics, manufacturing, retail, and agriculture sectors, as well as challenges for the insurance and utility sectors. The real estate, banking, FMCG, IT, and e-commerce sectors experienced a variety of impacts.

J. A. Kaur (2022), emphasizes the transformative nature of the GST in India, which simplifies the tax structure, improves compliance, and simplifies business operations. Banking, manufacturing, agriculture, and food processing have all been positively affected by this reform. The prospective benefits of GST are exemplified by comparisons with France, and the GST Council guarantees consistent tax rates.

Shetty, Spulbăr, Birau, and Ninulescu (2022), Examine the effects of GST on the banking sector in India, specifically the increased tax rates on banking services and the operational challenges that result from decentralized registration. This has resulted in higher compliance costs and IT investments.

Srivastava, Rastogi, Srivastava, and Rushdi (2022), examine the GST reform in India, emphasizing the transition to a consumption-based tax system and the implementation of the Input Tax Credit. The objective of their research is to compare GST and VAT across various industries in order to improve comprehension of its implications.

Harishekar and Manoj (2021), examined the effects of GST on small and medium-sized enterprises (SMEs) in the Peenya Industrial Area of Bangalore. They discovered that GST is designed to improve compliance, enhance transparency, and simplify taxes by replacing multiple indirect taxes. The empirical results for SMEs are inconsistent, despite the fact that the aim is to reduce costs and enhance efficiency.



Tekwani, Rana, and Raghuvanshi (2021), examine the positive effects of GST on handicraft exporters in Jaipur. They identify a substantial impact of GST variables on export ease through correlational analysis, underscoring the implications for policy-making and stakeholders.

Khan and Naeem (2020), explore the obstacles associated with the implementation of GST, including the complexities of dual government administration, the compliance burdens faced by small and medium-sized enterprises, and the need for IT support. Initial disruptions and conflicting public reactions persist, despite the long-term benefits.

Bhattarai (2020), investigates the consequences of India's GST by employing a Dynamic CGE model, with the aim of predicting enhancements in income and employment growth, resource allocation, and income distribution. The research posits that GST will encourage the development of infrastructure, transparency, and specialization, thereby fostering equitable growth.

3. Research Methodology of the Study:

3.1 Research Problem: The study examines the effects of the Goods and Services Tax (GST) on the financial sector in India. It is designed to comprehend the financial implications, taxation procedures, and transaction processes that have been altered for banks.

3.2 Research Design: This research paper employed a descriptive research design, as it was in the descriptive form.

3.3 Objectives of the Study:

1. To evaluate the effects of GST on the finance sector.
2. To investigate the challenges and issues that the finance sector has faced following the implementation of GST.
3. To offer valuable recommendations.

3.4 Need for the Study: The study emphasizes the importance of comprehending the impact of GST on the banking sector, offering policymakers, bankers, and customers valuable insights. It underscores the significance of adjusting banking practices to align with new tax regulations and recommends areas for enhancement. It underscores the necessity of continuous education and training to guarantee the efficient implementation and operation of GST in the banking sector.



3.5 Scope of the Study: The study concentrates on the effects of GST, indicating the possibility of conducting more extensive research. The long-term effects of GST on banking operations, consumer behavior, and industry profitability could be the subject of future research. Comparative studies could assess the implementation of GST in the banking sectors of various regions or countries and the lessons that have been acquired.

3.6 Sources of Data: Data were acquired from secondary sources, such as government reports, journals, newspapers, books, and periodicals, as well as banks' websites.

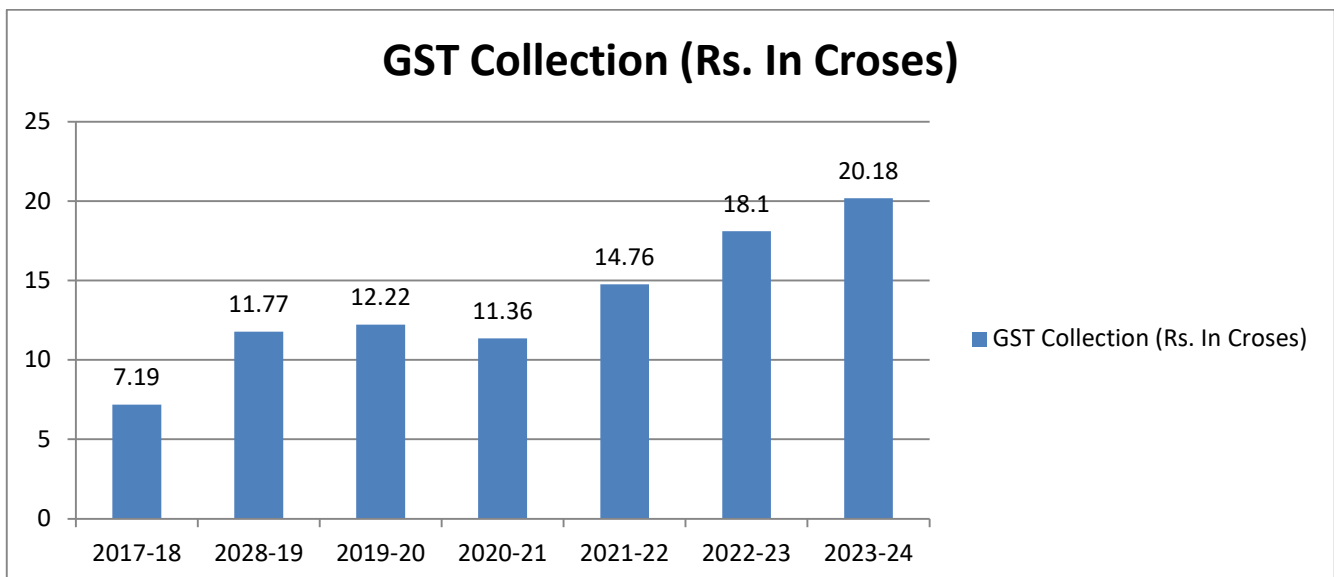
4. Data Collection and Analysis:

Table: 01 Analysis of GST Collection by Banks during 2017-2024

Year	GST Collection	Growth (%)
2017–18	7.19	—
2018–19	11.77	+63.7%
2019–20	12.22	+3.8%
2020–21	11.36	-7.0%
2021–22	14.76	+29.9%
2022–23	18.10	+22.6%
2023–24	20.18	+11.5%

Source: official website of GST (Goods & Services Tax (GST) | Returns)

Figure: 01





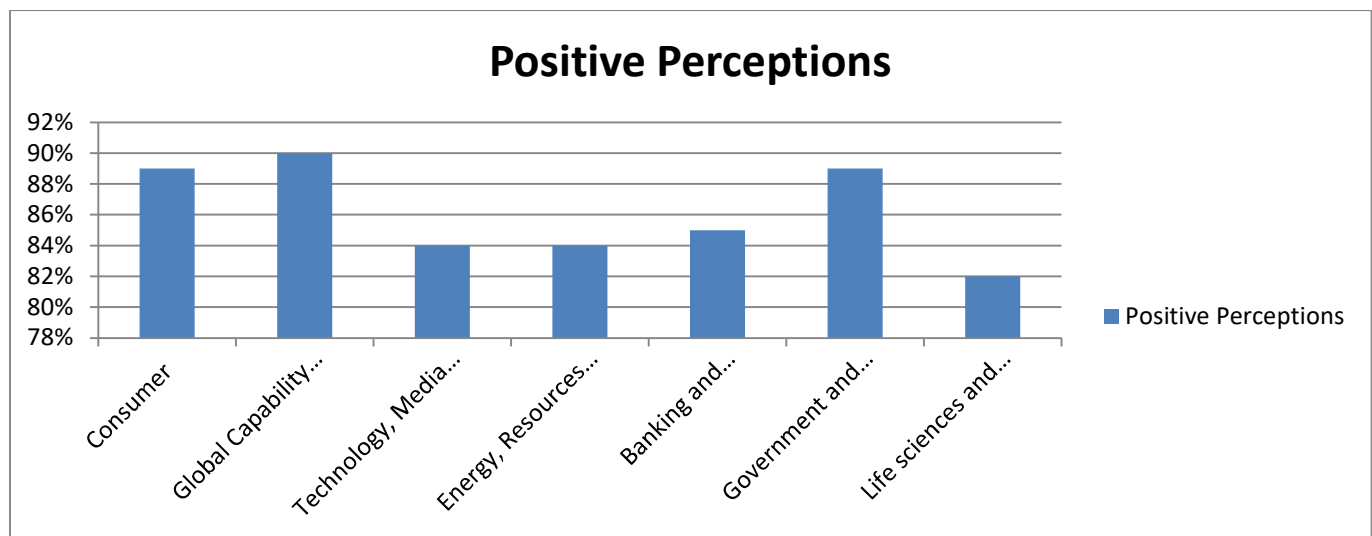
The implementation of GST in 2017-18 resulted in a significant increase (64%) that suggests an expansion of the tax base and enhanced compliance. In 2019-20 growth slowed (~4%), suggesting system normalization. A seven percent decrease as a result of the COVID-19 pandemic. The rate of growth in 2023-24 is expected to moderate to 11.5%. It suggests that the GST system is more mature and stable. The significant increase from ₹7.19 to ₹20+ lakh crore demonstrates the impact of GST. Expanded the tax base by registering more businesses → Decreased tax evasion through the implementation of input tax credit tracking → Suggested a transition from the informal to the formal economy

Table: 02 Analysis of Industry-Wise Perceptions Indian people

Sector/Industry	Positive Perceptions
Consumer	89%
Global Capability Centers	90%
Technology, Media and Telecommunication	84%
Energy, Resources and Industrial	84%
Banking and Financial Services	85%
Government and Public Services	89%
Life sciences and Healthcare	82%

Source: based on study

Table: 02



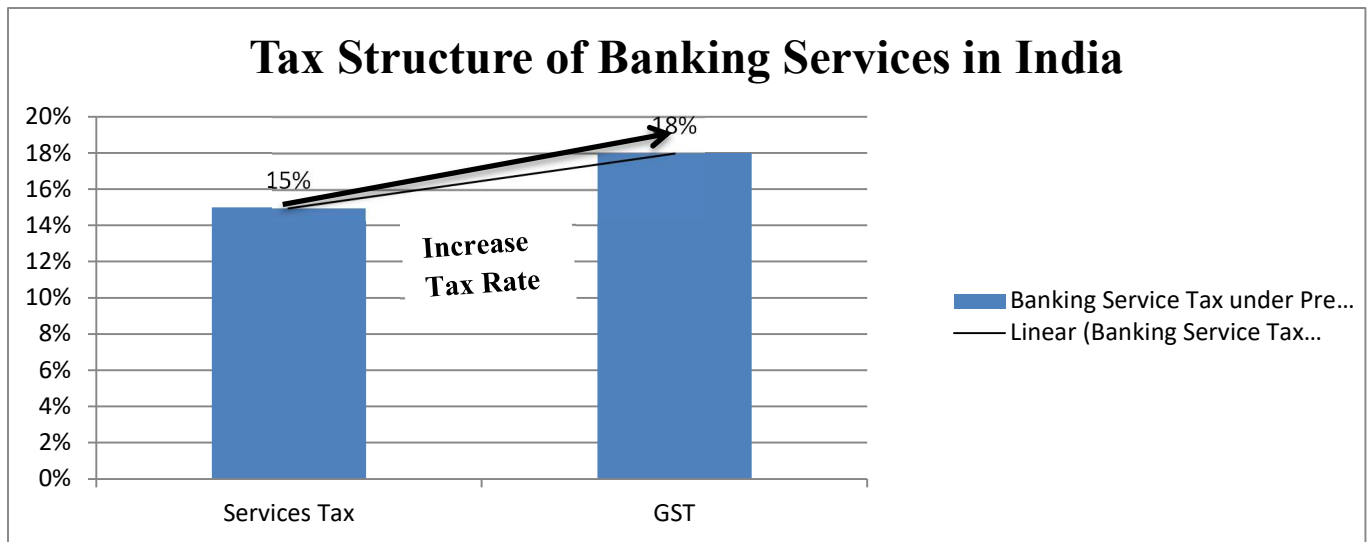


The primary public sector banks in India that handle GST collections are those that are authorized to accept GST payments and have a significant market presence. State Bank of India (SBI) is the most prominent of these banks. Bank of Baroda, HDFC Bank, ICICI Bank, and Axis Bank are among the other institutions. Bank-level contributions are not publicly evaluated in terms of specific percentages; however, public sector banks are the dominant players in this sector.

Deloitte's GST@8 report offers valuable insights into the opinions of Indian businesses regarding the Goods and Services Tax eight years after its implementation. The results are the result of a comprehensive online survey that was conducted with industry executives at the highest levels. The GST was widely acknowledged for its ability to facilitate economic growth, streamline tax administration, and enhance the simplicity of conducting business. Positive sentiment among micro, small, and medium enterprises increased from 78% last year to 82% this year, indicating a more widespread acceptance among smaller firms. The primary elements of this data analysis are as follows:

- The analysis suggests that there is a consistent and robust positive perception in all sectors, with a sentiment that ranges from 82% to 90% and an aggregate average of approximately 86%.
- The Consumer and Government & Public Services sectors have the highest positive perception, with 90%, followed closely by Global Capability Centres at 89%. This strongly demonstrates confidence in both market demand and public sector performance.
- The sentiment in the Banking & Financial Services (85%) and Technology, Media & Telecommunications (84%) sectors is stable, suggesting that they are resilient in the face of ongoing digital and regulatory changes. The Energy, Resources, and Industrial sectors are also at 84%, which indicates a moderate level of optimism in spite of the transition challenges.
- Life Sciences & Healthcare, despite its lowest percentage at 82%, still exhibits a positive outlook, despite the potential impact of cost pressures and evolving regulatory dynamics.
- The narrow variation across sectors underscores a broadly optimistic business climate, with the most promising opportunities in industries that are consumer-driven and globally integrated.

Figure: 03



Most banking services, including loan processing, card charges, and ATM withdrawals beyond limits, now attract 18% GST, up from 15% service tax.

5. Conclusion: India's banking sector has been substantially affected by the Goods and Services Tax (GST), which has replaced centralized service tax registration with mandatory state-level registration for each branch. Although it increases compliance burdens and raises service tax rates from 15% to 18%, it improves efficiency in the long term by enabling greater input tax credit (ITC) on goods and services.. The GST system is essentially restructured to streamline the current critical indirect tax system in India. At the time of GST implementation, all sectors encountered numerous challenges, as is typical for any novel concept. However, it will simplify the current indirect tax system and assist in the elimination of inefficiencies that have been generated by the current heterogeneous taxation system. It offers a variety of benefits, including a unified tax system, simplified input credit, and reduced compliance requirements. Consequently, we can infer that GST plays a dynamic role in the growth and development of our nation. However, in the banking sector, the service tax rate is increased, which results in a decrease in consumer satisfaction.

6. References:

1. Ambast, Ranjeet Kumar and Gupta, Amit and Bhadouria, Shailendra Singh (2024), "Assessing the Impact of GST on Profitability: Insights from Education, Hospitality, and Logistics Sectors", Asian Journal of Economics, Business and Accounting, 24 (5), pp. 41-52.



2. Bansal, R., Shrivastava, P., & Kumar, A. (2024), “Impact of goods and services tax (GST) on Indian economy”, *International Journal of Financial Engineering*, 2350045.
3. Maheshwari, T., & Mani, M. (2023) “Impact of goods and services tax on various sectors of Indian economy: a systematic literature review”, *International Journal of Economic Policy in Emerging Economies*, 17(4), 539-555.
4. Kaur, J. A (2022) review article on “Impact of GST on Various Sectors of Haryana”, *International research journal of humanities and interdisciplinary studies*, Volume 3, ISSN 2582-8568.
5. Shetty, S. K., Spulbar, C., Birau, R., & Ninulescu, P. V. (2022). “Investigating the impact of Goods and Service Tax (GST) on the banking sector with reference to selected banks in India”, *Revista de Stiinte Politice/Revue des Sciences Politiques*, (75).
6. SRIVASTAVA, S., RASTOGI, H., SRIVASTAVA, A., & RUSHDI, N. (2022). Reviewing Pre and Post GST Implication through Cross Industry Metrics Analysis. *Finance India*, 36(4).
7. Harishekar, L., & Manoj, G. (2021), “GST and its Impact on Small and Medium Scale Enterprises-A Study of Peenya Industrial Area in Bangalore, Karnataka”, *Studies in Business and Economics*, 16(1), 81-94.
8. Tekwani, K., Rana, A., & Raghuvanshi, R. (2021). IMPACT OF GST ON HANDICRAFT EXPORTERS. *Economic Studies*, 30(3).
9. Naeem, S., & Khan, J. (2020). the Social & Economical Impact of GST on Indian Economy. *The International Journal of Business Management and Technology*, 4(2), 74-85.
10. Bhattarai, K. (2020) “Impacts of GST reforms on efficiency, growth and redistribution of income in India: A Dynamic CGE Analysis”, *Journal of Development Economics and Finance*.

Websites:

1. Availability of ITC On Bank Charges Under GST
2. New GST On Banking Services 2026 | Latest Rate, Price & Impact Guide
3. GST Collection in India: Monthly Trends, Growth and Latest Updates (2025)
4. banking_services_hq.pptx
5. GST on Insurance and Banking Services in India 2026: Latest Rates and Impact
6. Updatedfaqs.pdf