

# Free banking services will not attract GST

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But late credit card and EMI payment to be taxed

NEW DELHI, JUNE 3

Tax authorities have made it clear that free service – such as certain number of ATM withdrawals, issuance of cheque book or account statement provided by banks – will not attract Goods and Services Tax (GST). Butcharges for late payment of credit card dues and additional interest charged in case of default in EMI payment will attract GST.

This clarification has come after the Department of Financial Services and Department of Revenue were not on same page regarding the imposition of GST on services such as free ATM transaction or issuance of cheque book. In fact, tax authorities have issued notices to many banks asking them to pay tax on free services as they are subject to ‘maintaining minimum balance’. After all these notices, the DFS had approached the revenue department, seeking clarity on whether such services would attract GST.

## Detailed FAQ

Now, the Central Board of Indirect Taxes and Custom (CBIC, which was previously known as Central Board of Excise and Custom, or CBEC) has issued detailed Frequently Asked Questions (FAQ) on issues related to the financial services sector.

In one of the responses, it said: “Section 7 of the CGST Act 2017 read with Schedule I thereto provides that services supplied without consideration to related persons or distinct persons only would qualify as ‘supply’. Also import of services by bank from a related person, or from any of its establishments outside India in the course or furtherance of business, will be ‘supply’ even if imported without consideration. Therefore, where the services are supplied by a supplier without consideration to an unrelated recipient or a person other than a related or distinct person, the same would not amount to supply and not liable to GST.”

This makes it clear that free services such as the use of withdrawal for up to 3 or 5 times will not attract GST.

FAQ also made it clear that there if a bank gives discount or concession on service charge, then GST will not be levied on the higher rate. It said that banks provide various services to customers for a charge.

However, at times, customers are provided services free or at a concessional/differential rate. Such a rate is offered, considering factors such as credit rating and stability of the customer, size of relationship, expected future business or the opportunity presented in the market elsewhere. As a result, the charges for the same service may differ from customer to customer. “Such services provided to persons who are not related persons will be taxable on the transaction value, that is, the value of the services charged or recovered from the customers or account holders,” it said.

The tax department also answered questions regarding taxability on late credit card or EMI payment. It said that GST will be levied on charges for late payment of dues on outstanding credit card bills.

“The exemption from levy of GST on interest specifically excludes interest charged on outstanding credit card balances,” it said. For delayed EMI, it mentioned that the value of supply includes, among others, interest for delayed payment of any consideration for any supply.

“Additional interest charged for default in payment of instalment in respect of any supply, which is subject to GST, will be includible in the value of such supply and, therefore, would be liable to GST,” it said.

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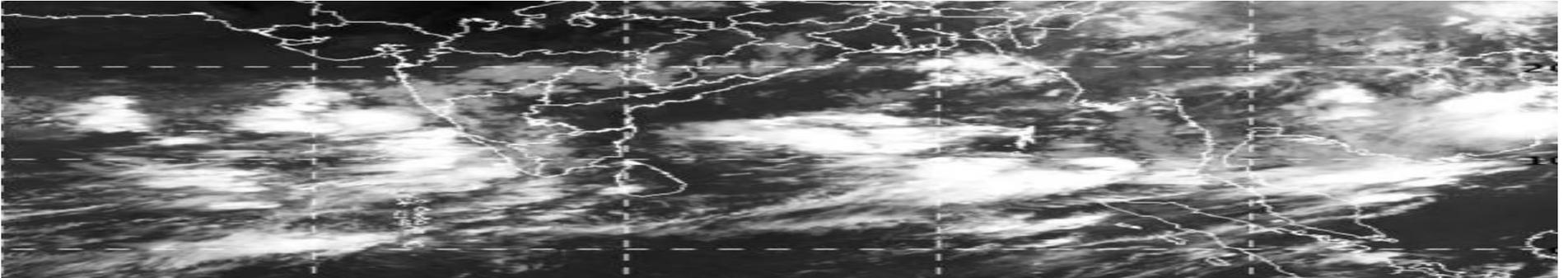
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