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Tax burden leave business correspondents of banks in a lurch

BY ET BUREAU | JAN 04, 2019, 07.50 AM IST

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Business correspondents (BCs) are facing a challenging time under the goods and services tax (GST) regime, said industry executives. Tax liabilities have gone up for BCs, who are meant to drive **financial inclusion** in rural and semi-urban areas, while wafer-thin margins and high compliance cost of last-mile retailers are major dampeners under the new regime, they said.

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Further, the industry is at a loss to figure out how to implement the zero tax rate on transactions involving Jan Dhan accounts. Bankers said the originating bank does not have information on whether the destination account is a Jan Dhan account since in most cases the two entities are separate. "There is no clarity yet from the tax authorities. We are facing tough times in the business," said a senior executive of an entity which works with **banks** to take financial services to remote areas. "It is a complicated business to be in, and now with the 18% tax rate our margins are getting further squeezed."

Executives spoke on condition of anonymity since the matter is under the purview of the central government. A senior executive with a private sector bank said that the BC business, which was a good way to reach out to rural customers, is not that lucrative anymore. "The off-us business is getting killed systematically. There is no money to be made in this area," he said.

In the off-us business, new-age banks usually set up retailer points to offer basic banking services such as remittance and opening of accounts of customers who are typically migrant workers or the urban poor. These customers tend to send money to their families back home through these channels. While the receiving banks in most cases were government-owned ones, BCs used to be associated with the new-age private banks. For the latter, this was an attractive touchpoint for prospective customers. "Now, extreme competition is diving prices downwards. Further, with higher taxes under GST, margins are getting squeezed," said the banker cited earlier.

BC Business

- WAS A GOOD WAY TO REACH OUT TO RURAL CUSTOMERS
- IS NOT THAT LUCRATIVE ANYMORE, SAYS A SENIOR BANK EXEC

WORRY IS...

Industry still can't figure out how to implement the zero tax rate on transactions involving Jan Dhan accounts

BANK EXEC

It's a complicated business to be in, and now with the 18% tax rate our margins are getting further squeezed

Last-mile retailers have always been a pain point from the compliance point of view, said executives. Depending on the areas and presence of bank branches, retailers tend to overcharge unsuspecting customers. "This mark-up happens mostly in cash and customers are forced to pay that amount since branches are not close by and sending money home is a compulsion," said another senior executive. "Now, with higher taxes, since the last-mile commission could get squeezed, they could be encouraged to charge more and fleece customers."

Executives said there is another apprehension that a chunk of transactions which were happening through banking channels could move to cash through [hawala](#) channels. Now that the GST Council has clearly spelt out the rates, the BC Federation of India is considering its next move, according to those in the know.

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