



PRESS RELEASE

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GST TAXING THE POOR?

BCs AND PMJDY/FINANCIAL INCLUSION

Business Correspondents (BCs) have been enthusiastically implementing, promoting and providing Financial Inclusion in general and PMJDY in particular thus serving the unbanked. The Financial Inclusion (FI) services are provided by Corporate BCs (CBCs) through their Agent BCs (ABCs). Thus, the unbanked Indians avail banking and other financial services through ABCs near them.

EMPLOYMENT CREATION THROUGH DELIVERY OF FINANCIAL SERVICES

ABCs play a crucial role in delivering various FI schemes viz. PMJDY, PMJJY, PMSBY, Overdraft, and APY etc. to the unbanked near them. The BC sector has created over 6.4 lakh jobs by giving opportunity to work as ABCs. And there is potential to further employ over 10 lakh youth in the immediate term.

BOTH URBAN AND RURAL AREAS REQUIRE FINANCIAL INCLUSION SERVICES

A large migrant population (from rural areas) works in urban areas and take help of ABCs near them to avail various FI services viz. remit money home etc. Similarly, persons in rural areas (viz. family of the aforementioned urban migrants) take assistance of ABCs near them to avail various FI services viz. access to DBT entitlements from Government schemes, encash the money remitted by migrants living in urban areas. Not only this, persons in rural areas also take the services of the ABCs near them to viz. remit money to their children studying in urban areas. The example of remittance is to demonstrate that the use case of FI is not area specific. Hence, the location of ABCs (urban or rural) should not be the determining factor for Financial Inclusion and taxation, rather, the delivery of FI services indeed is.

HOW THE GST SYSTEM IS ADVERSELY IMPACTING THE POOR

The present GST structure imposes a cumulative tax burden of about 27% GST on a migrant on the money sent by her to her dependants in a remote village. And vice versa. The other financial inclusion services are also being taxed similarly. While Government had earlier waived Service Tax (ST) on FI services but only for rural areas. However, as exemplified, FI is a need both in urban and rural areas.

Additionally, there are significant challenges and confusion not only in imposition and collection of GST on FI services, the paradox of location, but also the onerous requirement for BCs to register in all states! All these have resulted in making the delivery of Financial Inclusion/PMJDY services unviable for the BCs on one hand, and, also resulting in taxing the poor unbanked Indian on the other!

LIKELY RESULT OF PRESENT GST SYSTEM ON FINANCIAL INCLUSION

While Government is encouraging adoption of digital financial services by giving cash back and discounts availed by the savvy populace. Rather than give similar incentives, imposing about 27% GST on the poor citizens is surely contrary to the Government policy. Suffices to say that if the GST on FI services (regardless of location) and the requirement for CBCs to register in all states are not removed, all the benefits generated by PMJDY/FI face immense danger of being nullified. It may not only spawn unscrupulous informal channels but may also give rise to a huge discontent in over 33



crore Indians due to deficient/denial of financial services and render over 6.4 lakh youth presently working as ABCs - unemployed, and thus hamper GDP growth too.

The federation has submitted representations to Department of Financial Services Government of India, and also RBI that in the national interest directives should be issued to:

1. Levying GST @ NIL rate for all FI services (including remittance, credit facilitation, deposits, withdrawal, insurance, investment etc.) at urban and rural locations;
2. Clarify the meaning of Financial Services by Business Correspondent (BCs) to include banking, insurance, small value mutual fund/investments, pension etc., and
3. Abolish the onerous requirement of CBCs to register in all the states.

CHAIRMAN, BCFI's STATEMENT

Dr Anand Shrivastav, Chairman, BCFI said: Over several years, Business Correspondents (BCs) have worked with Government of India and banks to create and manage a huge and growing network presently of over 6.4 lakh Agent Business Correspondents (ABCs)/Bank Mitras, who in turn, serve hundreds of millions of hitherto financially excluded Indians. ABCs deliver various Government programmes and digital financial services to the poor and thus help Government achieve the objective of Financial Inclusion and PMJDY. There is just no case or justification to tax the poor. Hence, it would greatly help the poor Indians if Direct and Indirect tax rebates are given to the BC Sector on all financial services (regardless of location) in order to encourage them build wider, deeper, and strengthen this important national infrastructure critically required for delivering digital financial services to the masses. The present tax structure discourages the said nation building effort by imposing a cumulative tax of about 27% GST on the various financial inclusion services being provided. If this onerous tax is not swiftly removed, it may spawn not only unscrupulous informal channels, and longer queues at the bank branches, but may give rise to huge public discontent due to deficient/denial of financial services so critically required by the masses, and also hamper the GDP growth. Just as Government is encouraging the savvy populace to adopt digital financial services by giving them cash back and discounts, rather than give similar incentives to the poor Indians, extracting 27% GST from them is contrary to the stated Government policy. The moot question is, should the Government continue to extract 27% GST tax from a migrant housemaid Lakshmi (not real name) on the Rs 2,000 sent by her to her dependants in a remote village? The answer does not require genius. Just recalling Mahatma Gandhi's *Talisman* would provide an unequivocal riposte.

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ABOUT BCFI

Business Correspondent Federation of India (BCFI) www.bcfi.org.in is a not-for-profit organization, representing over 6.4 lakh Agent BCs (ABCs) and over 40 Corporate BCs (CBCs) across India offering various financial services under PMJDY and financial inclusion. BCFI's efforts are supported by World Bank/IFC, DFID, SIDBI etc.