

A STUDY OF IMPACT OF GOODS AND SERVICES TAX IN INDIA WITH RESPECT TO GOLD JEWELLERY SECTOR

1.0.ABSTRACT

GST (Goods & Service Tax) is a comprehensive, complex as well as destination-based tax that came into force in India with effect from 1st July 2017. It has replaced all the prevailing indirect taxes. Under the scheme of GST, tax is imposed at every stage of sales. The GST is levied at both centre as well as state level. It is basically technology driven since all the registration including other technical formalities are done online so as to speed up whole process. Also, GST is considered as a taxation reform in the country since it claims to remove the defects of the traditional multi-taxation system. At the same time, it ensures transparency in tax imposed, regulation of unorganized sector, efficiency in logistics, lesser complexities along with simple procedures. It was assumed that GST could greatly impact the jewellery sector, rather a negative impact. According to the initial announcements, jewellers were levied to pay 3% GST on the gold jewellery. Because of this impact of GST on gold, there was a decline in the demand for any of the gold object. The reason behind this was not only 3% GST but also 10% import duty that was levied on gold. The tax that was levied on gold prior to GST was 1% of VAT and 1% of excise duty but GST raised this tax to 3%.

Keywords: GST, Indirect tax, taxation system, Gold.

[Plagiarism of the present study according to Copyscape Premium Software is 0%]

2.0.INTRODUCTION TO GST

After independence, India started to develop at a faster rate in comparison with other developing nations. Various backgrounds which have contributed highly to the development of the country, include socio-cultural, legal, political, economic and demographics. In the last decade, India has emerged as one of the dependent nations with strong economy. Since independence, India had introduced various economic reforms to mould its economic growth to a high extent. Some of these reforms include Industrial Policy, 1951, New Industrial Policy, 1991, MRTP Act, EXIM Act, etc.

The recent biggest economic reform took place in the taxation system in the form of Goods and Service Tax on the midnight of 1st July 2017. It came with the tagline of “One Nation, One Tax”. It might seem complicated theoretically but is simple while implementing it. It is said to be complicated, because it is the new form of tax which has removed all of the previous taxes, including VAT. It is simple to implement, because there is only one tax, in the whole nation, which will be imposed on all kinds of items, be it household items or luxurious items. All the items have been categorized into four slabs under a single tax. So, obviously it is easy to remember one tax rather than about 500 taxes.^[1]

3.0.GST VERSUS GOLD

From the earliest of the times, gold has been a safe investment option because of its precious nature. There is a great history of gold where it has been used in various industries and brought into many applications.

Particulars	Before GST	After GST
Price of Gold	100	100
Custom Duty (10%)	10	10
A+B	110	110
Excise (1%)	1.1	0
C+D	111.1	110
VAT (1%)	1.1	0
E+F	112.2	110
GST (3%)	0	3.3
G+H	112.2	113.3
Total Price of Jewellery	112.2	113.3
Total Taxes and Duties (B+D+F+H)	12.2	13.3

After all the rates of GST were announced, the time was to announce the GST rate of gold by the council. The rate decided by the government was 3% which was 1% greater than the earlier taxation rate. Thus, at present, the gold is imposed a 10% import duty with additional GST of 3%. The excise duty of 1% has been removed now. This jewellery sector has become transparent as well as more organized due to the introduction of GST. Because of GST, the cost gap was reduced between the organized and unorganized firms selling the gold to earn a greater market share. Now, the customers may sell old gold jewellery as well as purchase new jewellery without any deduction in tax. By selling the old gold jewellery, on the sale of the jewellery, 3% GST is imposed on it, while on the purchase of new gold jewellery, the tax already paid will get deducted from the GST levied on purchase of the jewellery.^[2]

4.0.LITERATURE REVIEW

According to the new announcement of government, gold was imposed 3% GST that was 1% higher than earlier tax that used to be imposed. VAT that used to be imposed was below than that announced under GST, other duties remaining the same. When GST was implemented, the price of the gold increased marginally. The larger players in the market felt the cost gap being reduced between the organized as well as unorganized firms. [Harsh Kundaria, 2017]^[3]

When GST was to be announced, there arose a huge chaos over the exchange of rates of old gold jewellery for the purchase of new jewellery because the jewellers were imposed 3% GST. But, this confusion didn't have any impact on the customers buying the new gold jewellery because of 3% GST. During the purchase of new

gold jewellery, charges of 3% were levied so the customers exchanged the old gold jewellery and bought new jewellery which was to be paid reverse to the government. [Ram Sahgal, 2017]^[4]

The GST council meet was expected to be on February 8, 2017 where the issue of gold jewellery rates was to be raised by the Central as well as the State government. Both Central as well as State decided upon the rate of 4% on gold medal. [Surabhi, 2017]^[5]

While fixing GST rates, the government considered demand of gold. It was decided that excise duty of 1% and VAT of 1% was to be replaced by a single tax i.e. GST at 3%. This was a win-win situation for the jewellers dealing in gold. [Surendra Mehta, 2017]^[6]

5.0.OBJECTIVES

- To study the impact that GST had on the rates of gold.
- To study the effects that GST put in the gold rates with respect to the International Market.

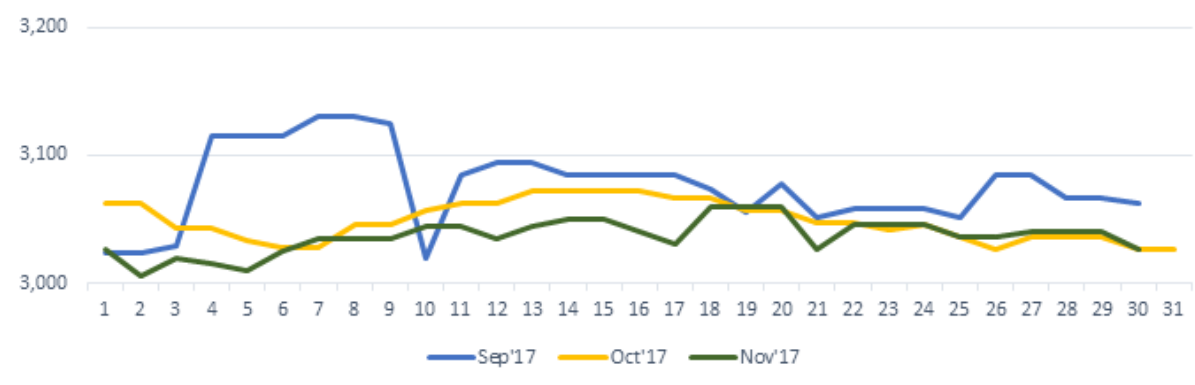
6.0.METHODOLOGY

The present study is based on the secondary data. The secondary data used for this study was collected from various journals, magazines, newspaper, and Internet. The descriptive technique has been used for the analysis in this research.

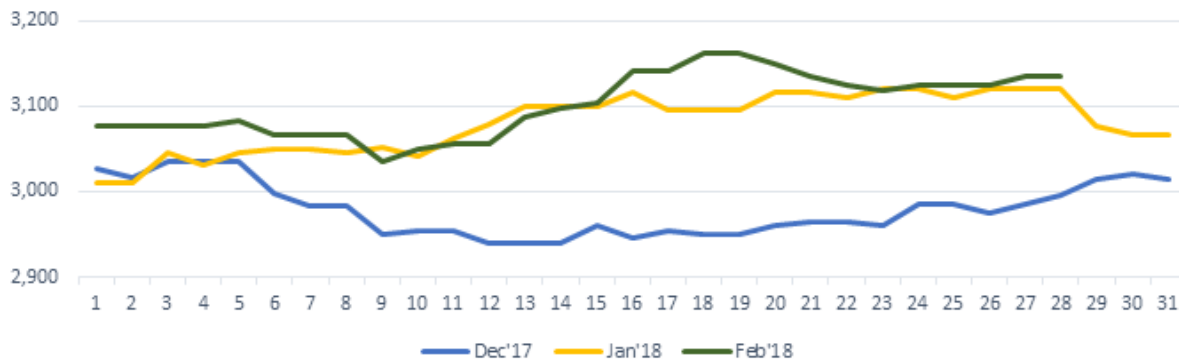
7.0.IMPACT OF GST ON GOLD

After the implementation of GST, there have been many fluctuations in the price of the gold jewellery. The market analysts expected that the new taxation system would show a decrease in the demand of the gold jewellery because of the high GST rates.

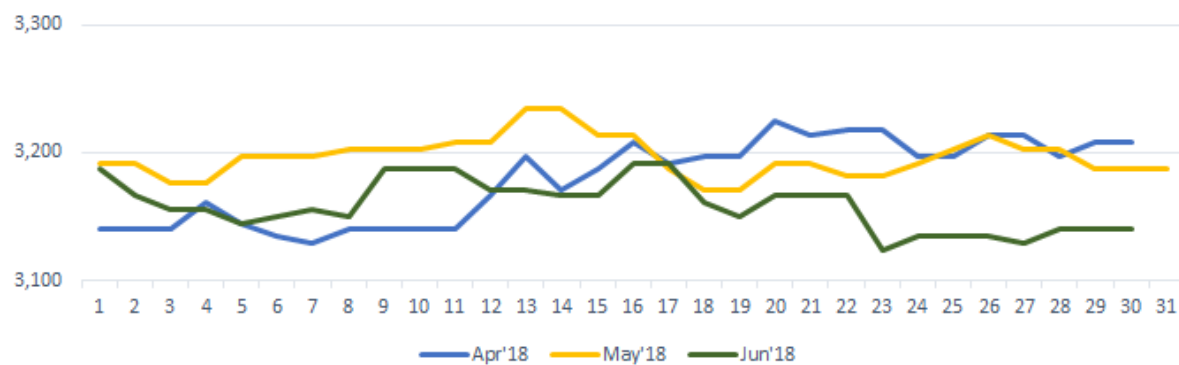
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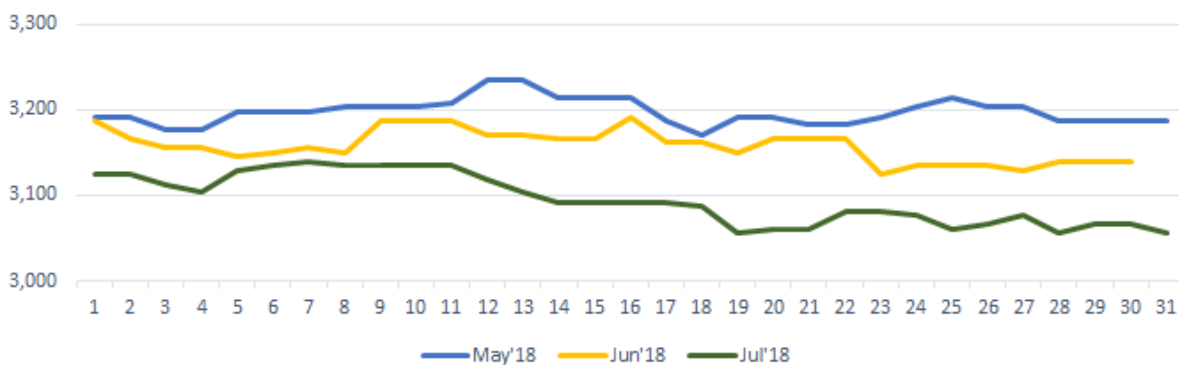
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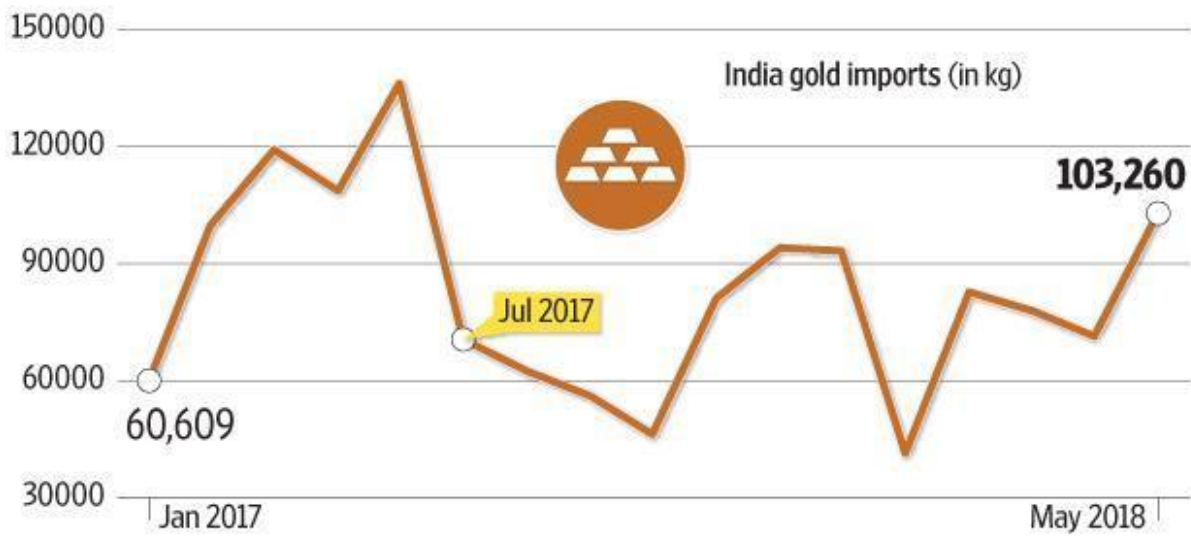


Source: <https://www.bankbazaar.com>

The demand for the gold in markets increased after the increasing price due to GST. Thus, GST had a positive impact on the gold jewellery sector, which was quite visible by the higher demand. Though the customers have some confusions over the increasing price of gold, the jewellery sector is satisfied with the new price of the gold set after the implementation of GST.

IS THIS A RED FLAG?

India's gold imports declined following the implementation of the goods and services tax in July 2017.



Graphic by Subrata Jana/Mint

Source: Centre for Monitoring Indian Economy

Source: <https://www.livemint.com>

Though there was an increase in demand of gold in market, there was a significant decline in the import of gold in India, with the implementation of goods and services tax.

With the implementation of GST in India, it did not have any long-term impact on the prices of the gold. The prices of gold increased to an overall 2-month high, because of the demand of gold being drastically reduced, because of 3% GST and 10% import duty. To understand it simply, gold falls into the category of expensive items by the increase of 0.75% after GST was implemented in India. The positive effect that GST had is that it improved the supply chains by removing the double taxation system efficiently. The gold jewellery sector has become more transparent with the coupling of hallmark legislation. This will also guarantee the customers who buy gold jewellery about the purity of gold, instead of suffering from gross level. Thus, the overall performance of the new taxation system of GST has a major effect on the gold jewellery. It is because of 3% GST that the demand of the consumers for gold lowered. In future, it is expected that GST may bring more transparency till the supply chain management is concerned. Also, it may bring the gold sector into one of the formal sectors.^[8]

8.0.FINDINGS

Goods and Services Tax, introduced on midnight of 1st July 2017, is the biggest economic reform in history of taxation system in India. It is a comprehensive taxation system consisting of multiple stages. It is imposed on every value addition item, thus a multi-stage tax.^[9]

GST is an indirect tax which has replaced many indirect taxes that existed traditionally in India. Some of the traditional taxes include central excise duty, service tax, countervailing duty, central sales tax, value added tax, entry tax, purchase tax, entertainment tax, advertisement tax, luxury tax, and State surcharges and cess. Thus, GST is having a two-pronged benefit. One, it is going to reduce the previous effect of taxes, and secondly, it will reduce the number of taxes by inputting tax credit.

GST put a great impact, especially, on the trade of gold including its import in India. Earlier, the gold importers planned to import approximately 25 tonnes of gold from South Korea. This would help the importers to escape from the import duty of 10%. As per the trade agreement between India and South Korea, it strike out the import duty of 10% on Gold, and interestingly, GST imposed the 10% customs duty on importing the gold.^[10]

9.0.CONCLUSION AND SUGGESTIONS

The GST or the Goods and Services Tax was made effective from the midnight of July 1st, 2017. This new tax reformed the older way of transactions were held and billings done, majorly in jewellery sector across India. After this reform was announced, a brainstorming session took place to keep a reasonable GST rate on jewellery, especially on gold. During this session, the government imposed a GST of 3% on the gold. With this rate, the gold jewellers were happy because the tax that was imposed on gold was comparatively less than expected according to the initial GST slabs.^[11]

From the earlier VAT of 1% in 2016, the GST on gold was increased to 3%. Many gold associations across India criticized this rate of GST. Thus, the prices of gold saw a hike but it didn't have any impact on purchase and selling of gold, because of the inclination of people towards the precious metals.^[12]

1. As per the present status, the GST rates are showing positive results in the gold jewellery sector. But, still the government should cut off the rates, so that it can be easy for the jewellers too to make jewellery at an affordable rate. Further, the higher prices of gold, due to which smuggling is increasing, should be taken into consideration. Since gold is a premium product, it is not easily affordable. Also, as the gold is used as investment, the exchange rates should be in favour of both consumers as well as the jewellers.
2. The long-term impact of GST on gold in India is likely to be positive. Though the fear of smuggling of gold exists, the situation is yet to be improved. At present, the gold associations are happy with the GST rate on gold and are confident of getting greater transparency resulting in positive impact on gold in India.

10.0. REFERENCES

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