

# Goods and Services Tax- An Impact on Gold Jewellery Market in India

<sup>1</sup>M.Kumraswamy, <sup>2</sup>Shivakumara B

<sup>1</sup>Professor, <sup>2</sup> Research scholar.

<sup>1</sup>DOS in Commerce, Manasagangothri, University of Mysore,  
Mysuru, Karnataka, India.

**Abstract:** The price of gold after the adoption of the Goods and Services Tax regime has seen some fluctuations. The researcher has apprehensive that the tax would lead to a decline in demand for gold due to the high incidence of taxation. The GST for gold was fixed at 3%, with an additional 8% tax levied, as making charges. The tax on the making charge was then reduced to 5% due to concerns raised by various groups. India's gems and jewellery sector is one of the largest in the world contributing 29 per cent to global jewellery consumption. At present the clever customers insist on hallmark certification and digital billing which is usually provided by the organised sector. Therefore, we can see a shift in customer base from organised to unorganised sector. From the seller's perspective, India's gold market is largely unorganized where as the organized sector, accounting for a relatively smaller portion of the market.

The core objective of Goods and Services Tax is to eliminate the cascading effect and improve the supply chain efficiency by providing input tax credit. Even neutralizing the revenue to government is one of major problems to be considered while designing GST slab rates. In the business perspective, GST by optimizing cost, time and resources, ensures a healthy competitive environment in the global market. In the absence of strong anti-profiteering measures, price of goods and services are still in upward direction before GST. The market share of the organised gold market is very low while the unorganised gold market share is very large. Even though the introduction of GST the gold market has increased the transparency in market and this is applicable only to the organised market sector and not to the unorganised market.

## 1. INTRODUCTION:

“Tax is a compulsory payment to government without expectations of direct return or benefit to the taxpayer” (Taylor). Tax is an important and most significant source of revenue to the government. The revenue is required for the government to maintain law and order in the country as well as the social welfare of the society. The important aim of the economic policy is to achieve economic growth of the nation and bridge the gap between the rich and the poor. Today the Indian tax system is going through, a revolutionary change. Government has been trying to fill the loopholes of tax provisions and trying to increase the revenue by changing the current tax system to a new and a better tax system.

Indirect tax is an important element of public revenue in India and it contributes about two- third of the total tax revenue. An indirect tax is a tax collected by an intermediary from the person who bears the ultimate economic burden of the tax. It can be shifted by the taxpayer to someone else. An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products. Goods and Services Tax is the single indirect tax system introduced in India on July 1<sup>st</sup>, 2017 at a midnight function in the parliament by our honourable Prime Minister of India. Goods and services tax is imposed on the supply of goods and services within India based on the principle of value-added tax. Goods and Services is a destination-based consumption tax i.e., tax is collected where the goods and services are consumed. It is a comprehensive tax system; it has subsumed various taxes such as central excise duty, commercial tax, value added, central sales tax, octroi, entertainment tax, entry tax, purchase tax, luxury tax, advertisement tax. This system

of tax uses the input tax credit mechanism therefore, reducing the cascading effect of tax and reducing the tax burden on the final consumer.

Every human being has greed for gold because it is one of the rare precious metal known to humankind. Nowadays it has become an investment option and it has along with a fascinating history of usage in jewellery, dentistry, electric industry. Gold is the most trusted and safe investment avenue and has a good prospect as an investment option. Gold tends to play a major role in various traditional activities and festivals in India. Be it weddings, birthday festival or special occasion, Indians love to purchase gold. Many Indian women primarily keep their savings in gold. In the common perception in India is, marriages are incomplete without gold jewellery. This close relationship with gold viewed not only in tradition but also in the economy as well. India's gems jewellery sector contributes about 7 per cent to India's Gross Domestic Product (GDP) in the financial year 2018-2019 and 15 per cent to India's total merchandise exports. The sector employs over 4.64 million employees and expected to employ 8.23 million by 2020.

India's gems and jewellery sector is one of the largest in the world contributing 29 per cent to global jewellery consumption. The sector is home to more than 30000 Gems and Jewellery players. India's gems and jewellery imports increased at a Compound Annual Growth Rate (CAGR) of 7.97 per cent from US\$ 11.63 billion in FY2004-05 to US\$ 31.52 billion in FY2017-18.

## 2. Literature review:

The authors have carried out a review of literature relating to the Goods and Services Tax experiences both in India as well as abroad. An attempt has been made to summarise the important studies and works keeping in mind the relevance of the present paper.

**Azharuddin, (2016)** in his paper attempted to explain the Goods and Services Tax and highlight the its objectives and impact on present tax system in India. He focused on impact of proposed Goods and Services Tax on various industries in India with challenges has to be faced while implementation of Goods and Services Tax. This study is based on secondary data collected from various articles, journals websites and government report. He concludes that it is good tax reform for India which strengthens the nation's tax system and brings economic well-being for country and stimulates the people to pay their tax liability.

**Joseph and Kamalam, (2016)** in the paper "A Study on Perception of Consumers Towards Gold Jewellery in Savakisi, Tamil Nadu" the author study the perception of consumer towards gold. Consumer perception refers to how consumer view a certain product based on their own conclusions. Here the author studies the history and growth of gold jewellery, socio-economic profile of the respondents and their perception towards gold jewellery. For this the researcher uses chi square test, Garrett ranking and percentages.

**Shankar and Shukla, (2017)** in their paper "A Study of Gold Jewellery Market in India" said India's love for gold is timeless. It is deep rooted in our tradition and culture. Demand of gold is constantly increasing with each passing year. It keeps fluctuating depend on the global market conditions, country's economic and political conditions, and basis of consumer sentiment, in this article the author mention the causes for increase in demand for gold in India and cause for rise in price of the gold in India. Here the author is suggesting improving the import policies.

**Jasmine, (2017)** in his study "Impact of GST on Gold Market" observed that after GST, gold is going to get little expensive for consumer in India. But there is unlikely negative impact of GST on gold price as the metal has been a favoured asset for Indians over several decades and will continue to do so. End consumers are not affected. For those jewellery retailers with a presence across multiple states, GST simplifies much of their tax payment processes. The

implementation of GST will have dramatic effects on gold trade as only 30% of the gold trade is organised. GST is beneficial to the organised gold merchants with proper registration under the tax law.

**Janitha and Madushree,(2017)** in this article “ A Study on Impact of Goods and Service Tax on Gold Sector” there are mixed response,s, arguments and opinions among the traders. It changes the country into one united common market. It is reducing the existing complexity of taxes as it contains VAT. Gold has become expensive, by about 0.75% post the implementation of GST in India. GST improve supply chains efficiently by excluding double taxation. The performance of the GST has a great effect on gold because of the 3% of GST the demand for the gold has been lower that is impose upon 10% of import duty.

**Kuruvilla, et al (2018)** in the paper “A Study on Implications of GST In Jewellery Business” GST affected citizens and business in manifold ways. For the economy of the country, contribution of the gems and jewellery sector cannot be ignored because exports of gems and jewellery alone contribute around 7% of GDP of country. Changes happening in the gems and jewellery sector due to implementation of GST on account of exports, sales on approval basis, exhibition, transfer of the old jewellery were discussed by the author.

**Ashok and Kumar, (2018)** authors made clear in their article A Study on Impact GST on Miscellaneous Industry; gold moderate impact of GST on gold industry. During the initial period of implementation of GST there was a fall in the sales of gold but after a certain period it accelerated sales. According to this study after implementation of GST the negative impact faced by the industries like transaction only through bank, less sales due to GST, tax computation is difficult to estimate and has high tariff.

3. **Objectives of the Paper:** the paper is constructed on the basis of the following objectives:

- 1) To study the conceptual theory of the GST Act in India.
- 2) To study the impact of GST on the price of gold jewellery.
- 3) To analyse the demand and supply of gold jewellery in the market.
- 4) To compare the price of gold jewellery before and after GST.
- 5) To suggest measures to made goods and services tax system more effective in the gold jewellery market.

#### 4. Methodology

The researcher has constructed the paper on the basis of secondary data. An effort has been made to review literature reports, statistical figure, GST books, GST Act and other information are collected forms books, journals, research report, published document by the Government of India and official websites.

#### Marketing of o Jewellery

##### Composite supply in case of sale of jewellery

Purchase of jewellery from a registered dealer who charges making charges and price of jewellery jointly in the invoice then it would be treated as composite supply. On the composite supply the dealer levy 3% GST which is borne by final consumer. If the invoice shows making charges separately then 3% GST on value of gold and 5% GST on making charges should be collected separately.

##### Sale of Used Jewellery to a Jeweller

The customer sells his used gold to a registered jeweller, then that need not to be considered as a supply since such sale is not as a regular business transaction. Purchase jewellery from the customer will not attract reverse charge mechanism. But the supply is from unregistered supplier to a registered supplier the reverse charge will apply.

### **Impact of Goods and Services Tax on Gold Price**

Goods and Services Tax is the biggest tax reform in India since independence. The price of the gold has seen some fluctuation after the implementation of goods and services tax. According to the world gold council (WGC) India is the largest consumer of gold after China in the world faces some challenges in the implementation of Goods and Services Tax. Before GST came into force the rate of tax on the sale of gold has been a composition of 1% value-added tax (VAT), 1% excise duty and 10% customs duty. After the implementation of Goods and Service tax, the tax levied on the sale of Gold Jewellery is 3%, and 12% making charge 5% of GST on making charge which is 0.75% higher than the old tax rate, which makes the price of the gold higher. This tax would lead to a decline in demand for gold due to the high incidence of taxation.

This increase in the price of gold jewellery is in line with efforts to reduce India's gold imports and lower the country's current account deficit. This is because we are a net importer of this precious metal and most of the gold imported is used in jewellery making. According to the Economic Times currently, the organized jewellery segment accounts for 22% of the jewellery market while 78% is captured by the local and independent stores. Unorganised jewellery shop sells low-quality gold and they are issuing improper bills. Also, small jewellers are not able to provide digital payment options.

At present, the clever customers insist on hallmark certification and digital billing which is usually provided by the organised sector. Therefore, we can see a shift in customer base from organised to the unorganised sector. From the seller's perspective, India's gold market is largely unorganized, with the organized sector accounting for a relatively smaller portion of the market. Even though the introduction of GST on gold has increased the transparency, this benefit is only applicable to the organized sector. As a result, some industry experts believe that smaller jewellers may move into the unorganized sector to avoid GST on gold sales.

### **Gold market at international scenario:**

India is among the highest consumers of gold having inadequate domestic supply and the demand is met through imports though it is adversely impacting the country's current account deficit. Over the years, policies around the gold have targeted reduction in the gold imports. 75% of world gold supply comes from mining and remaining from the recycling of above-ground gold. China is the highest gold producer in the world. It produces 14% of the total annual production in the world. After china major gold producers are Australia, Russia, and the United states which have 8% of global gold mining productions. India's share in global gold production is less than 0.05%.

The global demand for gold for different use is continuously increasing. It includes jewellery fabrication, technology, industry purpose and investment. China is the highest producer of gold and as well as having the highest demand, it has 30% of the global demand and the second one India has 25% of the global demand. According to the world gold council (WGC), it has been noticed the demand for the gold jewellery has been reduced by 25% after the implementation of GST of 3% on gold jewellery sales, Thus GST has adversely influenced the demand of gold jewellery in India.

### **Import of Gold:**

Import duty on gold and precious metals is 10%. Import has a significant influence on the country's Gross Domestic Product. Today's India's current account deficit which is a net outflow of money has been widening. A widening current account deficit is detrimental to the growth of an economy. India has consistently been experiencing Current Account Deficit. High level of deficit is considered detrimental to the economy. Thus, it would necessitate to reduce the capital outflows to maintain the Balance of payment position. However, since gold imports are also used for the export of gold jewellery, it has the potential to mitigate the adverse impact of imports on the current account deficit.

Table.no.01

## Comparison of Gold price before and after Goods and Services Tax

Under GST regime (After GST)	Under VAT regime (Before GST)
1. 10% Customs Duty on gold being imported from overseas	1. 10% Customs duty on gold imported from overseas
2. 3% GST on the value of gold in the jewellery	2. 1% Excise tax
3. Making charge 12% of gold price and custom duty	3. 1.2% VAT
4. 5% GST on making charges of the gold jewellery	4. Making charge 12% of gold price and custom duty
	5. No tax on making charges

Source: Primary data

One of the biggest tax reforms in India is GST. The issue about taxation on Gold was much debated and finally, a rate of GST on gold is fixed at 3%. Under old tax regime, gold jewellers pay 10% customs duty on gold and pay 1% excise plus 1.2% VAT over above that. With the introduction of Goods and Services Tax at 3% for gold and 12% making charge and 5% GST on making charges. So, it is clear that gold is going to get slightly expensive. The 5% GST applies to making charges of the gold jewellery. Making charges for gold jewellery can be either in the form of a fixed percentage on the value of gold or a fixed charge. Thus, making charges of jewellery tend to vary from one jeweller to another which will impact the GST on gold jewellery being purchased.

Table.no.02

## Comparison of Gold price before and after GST

Assumed price = 50000

Weight = 10 Grams

	PARTICULARS	BEFORE GST (Rs)	UNDER GST (Rs)
01	Price of the Gold	50000	50000
02	Custom duty (10%)	5000	5000
03	1+2(Price + Custom)	55000	55000
04	Excise duty (1%)	550	0
05	3+4( Price + Custom + Excise )	55550	55000
06	VAT (1.2%)	667	0
07	5+6 (Price + Custom + Excise + VAT )	56217	55000
08	GST (3%)	0	1650



09	7+8 ( Price + Custom + GST)	56217	56650
10	Making charge (12%) on price of Gold + Custom	6600	6600
11	9+10	62817	63250
12	GST on making charges (5%)	0	330
	<b>TOTAL PRICE OF JEWELLERY</b>	<b>62817</b>	<b>63580</b>
	TOTAL TAXES AND DUTIES	6217	6980

Source: Primary Data

From the above table in a hypothetical situation, if the import price of the gold jewels is Rs.50000 for 10grams, the price of the gold jewel before Goods and Services tax is 62817 and after Goods and Services tax is 63580. This indicates that the price of the jewels is increased by Rs.763.

Before the introduction of Goods and Services Taxes, on imported price i.e., Rs. 50,000 10% customs duty and 1% excise duty and 1.2% VAT were levied. After the implementation of Goods and Services Tax, 3% GST and 12% making charge again 5% GST on making charges are levied that to without the availability of input tax credit and there is presence of cascading effect on making charges.

##### 5. Findings of the paper

- 1) The core objective of Goods and Services Tax is to eliminate the cascading effect and improve the supply chain efficiency by providing an input tax credit to all the dealers involved in the Jewellery market. Yet it is not achieved.
- 2) Due to the implementation of Goods and Services tax all the traders, both organised and unorganised must compulsorily register under the GST scheme. It will ensure more transparency in the jewellery business by ensuring to the government and Goods and Services tax benefit to the ultimate consumer.
- 3) After the implementation of Goods and Services tax, gold jewellery has become more expensive due to the changes in the rate of tax from VAT @1.2% + Excise @1% to 3% Goods and Service tax which is 0.75% higher than the old rate.
- 4) In the case of gold jewellery, Goods and Services tax has not been effective in reducing its price, but it adversely resulted in increasing the market price of gold jewellery.
- 5) As an impact of the Goods and services tax, custom duty has reduced. The pure gold (24 carat) that has been imported from outside used to pay custom duty and excise duty in the form of additional customs is levied along with IGST (Integrated Goods and Services tax), comparatively the quantum of tax burden is reduced.
- 6) The Jewellery market simultaneously experienced the double shock, one from Demonetisation of high currency notes and the another from GST. Demand for investment in Gold will leads to increase in the market but unfortunately the rate of tax is levied on price of the gold rather than quantum of gold.

##### 6. Some of the major Suggestions:

- 1) The base of the tax will affect the price of the jewellery due to increasing price trend. The government has to levy the tax, not on the cost of gold instead, we go back to the old basis of weight. Even under GST will help the consumer the tax burden will not increase on par with the market rate of gold.
- 2) Gold is an essential commodity in a various occasion in the Indian social tradition, keeping this in mind the government may levy a concessional rate of tax on producing a certain additional document for each occasion by fixing the minimum standard quantum of gold.

- 3) Consideration of Revenue Neutrality Rate (RNR): Consideration of RNR in designing GST slab rates to neutralize the tax revenue to both state and central government, after implementing GST is one of the major challenges. Implementation of GST in India the gold and gold jewel must bring to RNR otherwise the core objective of GST will defeat.
- 4) After implementing GST, many countries have experienced high inflation rate and hike in the price of goods and services. To avoid such risk, like other countries India has to initiate anti-profiteering measures at the retail level to protect consumers from price swindling. GST act should it mandatory to pass on the benefit due to the reduction in the rate of tax or from ITC to the consumer by way of commensurate reduction in Prices
- 5) Before the implementation of GST, it was dreamt that the price of all goods and services including gold and gold jewels will come down and such benefits will pass on to consumers and society at large. But in reality, the price of goods and services are still increased as compared to the pre-GST Regime.
- 6) The Pre-GST indirect tax system was suspected with time-consuming, a large number of employees, high cost etc. To minimize such burden up to a possible extent, Goods and Services Tax Network (GSTN)-As a backbone of GST, plays an important role in streamlining of tax administration, which creates Common GST Portal as a front-end of the overall GST-IT Eco-System. To make use of this system all the unorganised market should bring under the GST network in days to come.

## 7. Conclusion

Goods and Services Tax is a comprehensive, multistage, consumption-based, Information technology-driven indirect tax system. GST will widen the taxpayer base, which would increase tax revenue and help in the creation of employment opportunities and ensure equal wealth distribution across India. In the flipside, it has no perfect milestone to increase taxpayer base and revenue, and digitalization of commercial transactions is difficult in our paper-based economy. Even neutralizing the revenue to the government is one of the major problems to be considered while designing GST slab rates. In the business perspective, GST by optimizing cost, time and resources ensures a healthy competitive environment, helps in easy availability of external funds. Multi-state registrations, tax compliances, increase in income tax liability maps either faces of GST.

The price of gold and gold jewels is constantly increasing year on year after the implementation of GST. The implementation of Goods and Services Tax (GST) has a great impact on the gold price. Concerning gold jewels, the perspective of the consumer is that along with the availability of taxes and duties in multistage on gold it would increase the price of gold jewels as well. But, due to absence of strong anti-profiteering measures, the price of goods and services are still in an upward direction. It has become expensive by about 0.75% after the introduction of GST. The organised gold market portion is very low when the unorganised gold market very large market. Even though the introduction of GST on gold has increased the transparency, this applies only to the organised sector and not to the unorganised sector. And some of the small organised gold retailers move into the unorganised sector to avoid tax. GST may be the old concept in the world. But, for India, GST is just a two years baby, which we cannot clearly specify its implication on the gold jewellery market. In order to take such baby in an efficiently and effectively, the role of the GST council is very much needed.

## References

1. A. Joseph Xavier, G. K. (2016). A Study on Perception of Consumers towards Gold Jewellery in Sivakashi, Tamilnadu. *Asian journal of managerial science*, 5(2), 15-22.
2. Asha, K. (2014). A study on buying behaviour of customers towards branded and non-branded gold jewellery with referance to kanyakumari district. *international journal of management (IJM)*, 105-114.
3. Ashok, A. (2018). A study on impact of GST on miscellaneous industry; Gold. *international journal of machanical engineering and technology (IJMET)*, 9(11), 608-6013.
4. CS Isha Shankar, S. S. (2017). A study of gold jewellery market in india. *international jornal of academic and development*, 2(5), 238-241.
5. Hema Raghav, D. A. (2017). An analytical study of volatile gold price: with effect of GST. *Unnathi-The business journal*, 59-65.
6. Jasmine, D. (2017). Impact of GST on Gold Market. *Global Journal for Research analysis*, 1(12), 390-391.
7. Ms. Janitha M.L, M. M. (2017). A Study on Impact of Goods and Services Tax on Gold Sector. *IOSR Journal of Business and Management* , 1-3.
8. R. Kuruvilla, P. H. (2018). A Study on the Implications of GST in jewellery Business. *Aaian Journal of Managerial Science*, 7(3), 34-36.
9. <https://WWW.gold.org>
10. <https://cleartax.in>
11. World gold council

