



## IMPACT OF GST ON GOLD MARKET

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### ABSTRACT

The gold market is large and complex .Gold is mined on every continent except Antarctica, shipped around the world to be refined and sold to a diverse set of end users, central banks, institutional and retail investors, technology companies and jewellers. Gold is a valuable and has a vibrant recycling market. This paper analyses the impact of GST on gold among consumers, import market, functioning of World Gold Council, the accounting treatment on gold and its impact before and after implementation of GST on gold.

**KEYWORDS :** Gold, impact, market, trade

### IMPACT OF GST ON GOLD MARKET

#### Introduction

Gold is a chemical element with symbol AV (from Latin; AURUM and automatic number 79 In its purest form, it is a big, slightly reddish yellow, dense, soft, malleable and ductile metal. The gold market is large and complex .Gold is mined on every continent except Antarctica, shipped around the world to be refined and sold to a diverse set of end users, central banks, institutional and retail investors, technology companies and jewellers. Gold is a valuable and has a vibrant recycling market.

Country	2009	2010	2011	2012	2013
India	442.37	745.70	986.3	864	974
China	376.96	428.00	921.5	817.5	1120.1
United States	150.28	128.61	199.5	161	190
Turkey	75.16	74.07	143	118	175.2
Saudi Arabia	77.75	72.95	69.1	58.5	72.2
Russia	60.12	67.50	76.7	81.9	73.3
United Arab Emirates	67.60	63.37	60.9	58.1	77.1
Egypt	56.68	53.43	36	47.8	57.3
Indonesia	41.00	32.75	55	52.3	68
United Kingdom	31.75	27.35	22.6	21.1	23.4
<b>Other Persian Gulf Countries</b>	24.10	21.97	22	19.9	24.6
Japan	21.85	18.50	-30.1	7.6	21.3
South Korea	18.83	15.87	15.5	12.1	17.5
Vietnam	15.08	14.36	100.8	77	92.2
Thailand	7.33	6.28	107.4	80.9	140.1
<b>Total</b>	<b>1508.70</b>	<b>1805.60</b>			
<b>Other Countries</b>	251.6	254.0	390.4	393.5	450.7
<b>World Total</b>	<b>1760.3</b>	<b>2059.6</b>	<b>3487.5</b>	<b>3163.6</b>	<b>3863.5</b>

Source-World Gold Council

#### Consumption

The consumption of gold produced in the world is about 50% in jewellery. According to World Gold Council, China is the world's largest single consumer of gold in 2013 and toppled India for the first time with Chinese consumption increasing by 32 per cent in a year, while that of India only rose by 13 per cent and world consumption rose by 21 per cent. Unlike India where gold is mainly used for jewellery, China uses gold for manufacturing and retailing.

#### Golden impact on GST

- Post GST ,besides a 3% tax on gold jewellery ,there is an 18% tax on services which would depend on whether jewellery is manufactured in house or out sourced
- Industry will become transparent with the implementation
- However, consumers and jewellers may try to conduct recycling transactions under the counter says Word Gold Council

#### Before the implementation of GST

Prior of GST, jewellers used to pay 10 per cent customs duty on gold and 1 per cent excise plus 1.2 per cent VAT over and above that. All of these taxes when summed up equals to 12.43 per cent when buying jewellery and 11.32 per cent when buying bars as there are no excise duty on bars.

#### After the implementation of GST

With the implementation of GST at 3 per cent for gold and 18 per cent for making charges, the effective rate comes to 15.67 per cent including 10 per cent customs duty. When compared, the effective price increase on gold jewellery comes to 3.24 per cent and the gold bars will be dearer by 1.98 per cent.

#### Accounting Treatment

The profit gained from the sale of gold is taxable under the "capital Gains "for individuals and in case of gold and jewellery dealers it is taxable under "profits and gains of business or profession"

#### Gold Price after GST through a Table Presentation

S.no	Particular	Before GST	After GST
1	Price of gold (100 gm 995, in Rs)	2, 63,636	2, 63,636
2	Customs obligation (10%)	26,364	26,364
3	A+B	2, 90,000	2, 90,000
4	Excise (1%)	2900	0
5	C+D	2, 92,900	2, 90,000
6	VAT (1.2%)	3515	0
7	E+F	2, 96,415	2, 90,000
8	GST (3%)	0	8700
9	G+H	2, 96,415	2, 98,700
10	Making charges (12% of gold cost + customs)	34,800	34,800
11	I+J	3, 31,215	3, 33,500
12	Making Charges GST (5%)	0	1740
	Total Price of Jewellery (K+L)	3, 31,215	3, 35,240
	Total charges and obligations (B+D+F+H+L)	32,779	36,804

Source- Gold GST Rate; Impact on consumer before and after

#### Impact on GST on import of gold

GST had a substantial impact on the import of gold in India.25 tonnes are being imported from South Korea. Gold importers are merely taking advantage of the recent tax change and the Free Trade Agreement with South Korea, which allows importers to ship in gold without paying a 10% customs duty.

#### Impact of GST on the organised gold sector

It is believed that the implementation of GST will have dramatic effects on gold trade as only 30% of the gold trade is organised. Although GST is set to benefit the organised gold trade, as by having greater transparency and accountability, it may also prompt some

jewellers to move to unorganised areas

### **Impact of GST on unorganised gold sector**

It is estimated that India imports 700-800 tonne of gold annually. This gold comes under the unorganised sector. GST has spiked the gold rates by 13%, which may increase the chance of smuggled gold making its way to the Indian shores, more than usual.

### **Report of World Gold Council**

According to the reports of World Gold Council (WGC), it has been noticed that the demand for gold jewellery in India diminished by 25 per cent year-on-year to 114.9 tonnes during the third quarter of FY 2017. After the implementation of Goods and Services Tax (GST) Regime, 3 per cent tax rate has been charged by the government on gold items which adversely influencing the demand for gold items in India. The government also applied Prevention of Money Laundering (PML) Act to Gold and Jewellery Industry in August. The introduction of the 3% Goods and Services Tax (GST) at the beginning of July was a contributing factor as per the reports of World Gold Council

### **Conclusion**

Thus, it is clear that gold is going to get a little expensive for consumers in India. But there is unlikely to be any 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. Considering the overall industry standards across the world, the GST is very low. The higher volume of consumption justifies this. End consumers are not affected. For those jewellery retailers with a presence across multiple states, GST simplifies much of their tax payment processes. No longer will they have to bother with different states having their own sales tax measurements.

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