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12th India International Gold Convention, Goa

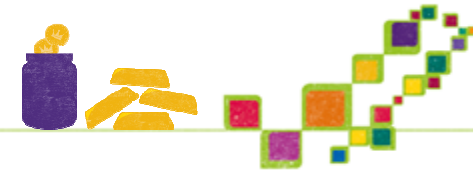
22 August 2015

Goods and Service Tax (GST) Impact Analysis- Bullion and Jewellery Industry

Amit Kumar Sarkar
Partner, Grant Thornton India LLP



Background



Bullion and Jewellery Sector in India:

- The Gems and jewellery sector in India contributes 6-7 per cent of the country's GDP.
- Gold occupies the second position among all investment instruments as a "Safe" option
- The said sector employs over 2.5 million people either directly or indirectly
- India is one of the largest consumer of gold due to various reasons such as –
 - Gold is considered auspicious for major occasions like festivals, marriage, birth, etc.
 - Gold is considered an investment option

Government Initiatives:

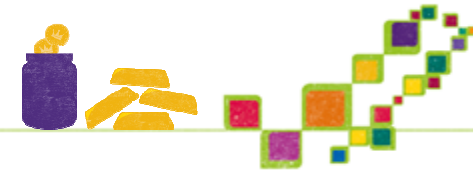
Promotion of the brand "India"

- The Government has recently undertaken various measures to promote investments, to upgrade technology and to develop skills to promote brand "India" in the international market

"Make in India" initiative

- Jewellery is one of the many sectors that have been identified for 'Make in India' initiative
- It is possible that the Government may push for a uniform hologram for encryption on every ornament made in India, as one way to promote 'Make in India'

Background



Government Initiatives contd.

Liberalization of policies

- The RBI has recently liberalized the policy for import of gold

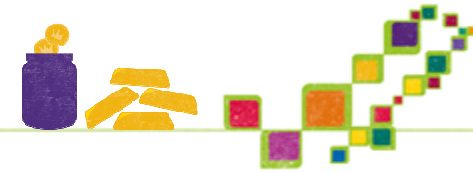
Roadmap for future:

- Typically, the Gem and Jewellery players are family owned businesses
- In the coming years, it is expected that the growth in the bullion and jewellery sector would be due to the development of large retailers/brands
- Established brands are guiding the organised market and are opening opportunities to grow
- Reintroduction of low cost gold metal loans and likely stabilisation of gold prices at lower levels is expected to drive volume growth for jewellers

GST: Features, Coverage, Status and Rates

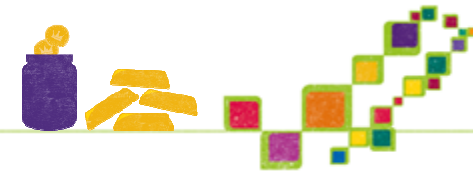


GST: Features



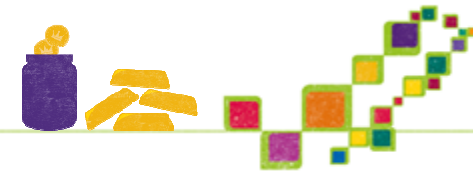
- GST is proposed to be a comprehensive indirect tax levy on sale and consumption of goods as well as services at the national level
- India is planning to adopt a unique model for GST to replace the present multi-layered indirect tax structure
- Dual-Levy proposed, with Centre and States respectively entitled to levy tax on "supply of goods or services or both" at the same time, on the same transaction, and for the same value
- Dual-GST structure as proposed is essentially a compromise formula; likely to see further iterations in the near future after introducing the basic structure
- Central-GST (CGST) and State-GST (SGST) would be administered under separate legislations; with no cross-credits available amongst these levies
- Integrated-GST (IGST) levied under separate legislation and would be fungible (viz. cross credits available with CGST and SGST)

GST: Coverage



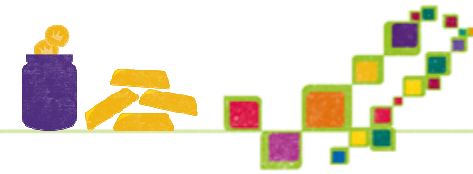
Laws	At Central level	At State level
What is covered	<ul style="list-style-type: none">• Additional customs duties• Central Excise Duty• Service Tax• Special Excise duty (on medical and toiletries preparation)• Various auxiliary levies (such as R&D Cess)	<ul style="list-style-type: none">• State-VAT• Central Sales Tax• Entry Tax• Luxury Tax• Entertainment Tax• Purchase Tax• Taxes on Lotteries and Gambling
What is not covered	<ul style="list-style-type: none">• Basic Customs duty• Cesses on mining for oil, coal, etc.• Other specified laws	<ul style="list-style-type: none">• Stamp duty and property tax• Any municipal levy through delegated legislation• Electricity duty• State Excise duties

GST: Current Legislative status



GST Roadmap/ to-do list	Proposed timeline	Likely timeline
Centre-State consensus on GST structure for India (dual-GST)	✓	✓
State revenue loss compensation formula agreed	✓	✓
Constitution Amendment Bill (122 nd Amended Bill) to drive agreed structure tabled before Parliament	✓	✓
Recommendation by Select Committee of Rajya Sabha	✓	✓
Approval of Lok Sabha on recommendations of Select Committee	Aug 2015	✓
Approval of Rajya Sabha on amended bill by 2/3 rd majority	13 Aug 2015	?
Model GST Bill (Central GST and State GST) / GST Rules (for Place of Supply, Administration, etc.) released for discussion	Oct 2015	?
GST bill to be introduced and approved by at least 50% State legislatures (both houses)	By Dec 2015	?
President assent to constitutional amended to give effect to GST structure	Jan 2016	
Appointment of GST council by President of India within 60 days of constitution amendments coming into force	Jan – March 2016	?
GST Rules and Regulations notified for implementing GST in India	1 April 2016	1 April 2017

GST: Proposed rates?



Situation I: 3 rate structure (12-16-20)

- Lower rate of GST for "goods of national importance"
- Mid-rate for services and intangibles
- Residual goods taxed at peak rate

Situation II: 2 rate structure (12-24)

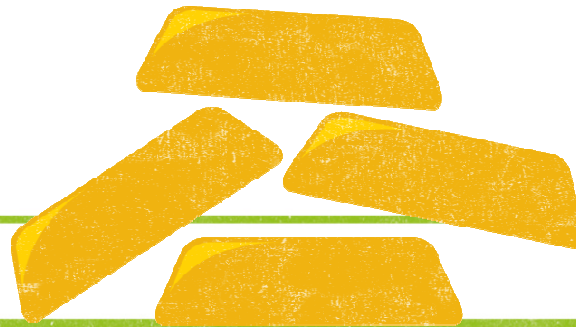
- Lower rate of GST for "goods of national importance"
- All other goods taxed at peak rate
- Would services be divided as well?

Situation III: 2 rate structure (12-27)

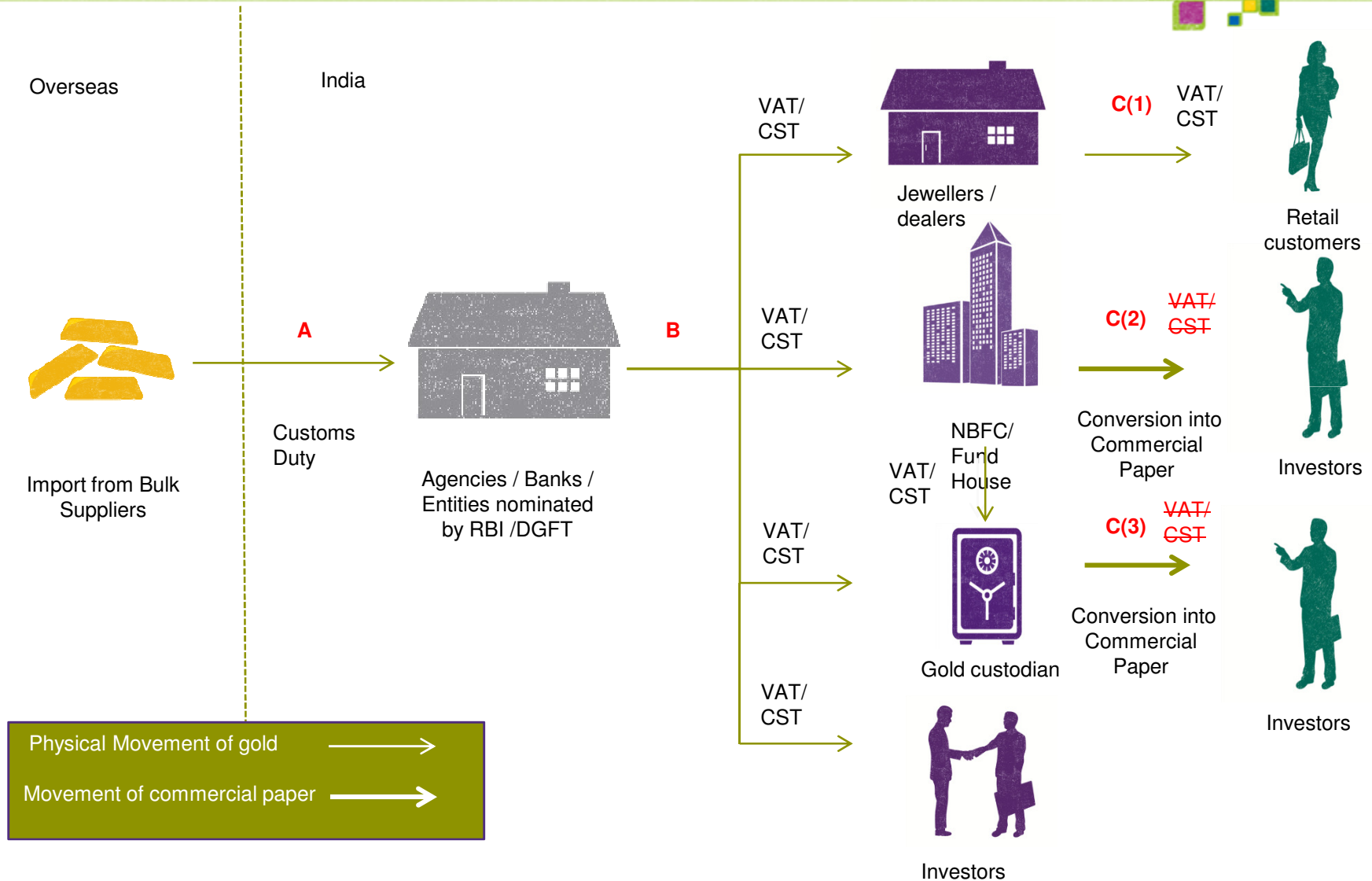
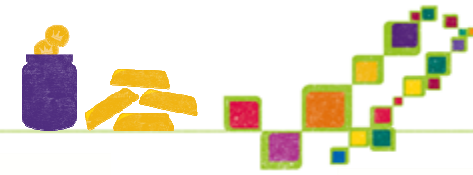
- Structure similar to Situation II
- Additional charge to compensate states' potential revenue loss under dual-GST
- Additional 1% charge for entry tax

1% additional tax for the first 2 years to compensate the manufacturing / Service providing States

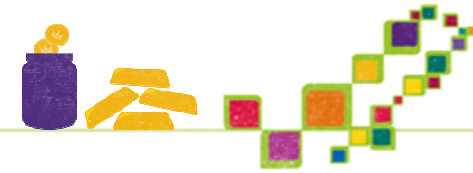
GST- Impact on Bullion & Jewellery Sector



Jewellery Sector: Modus Operandi

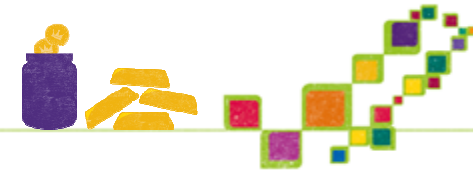


Indirect Tax Implications



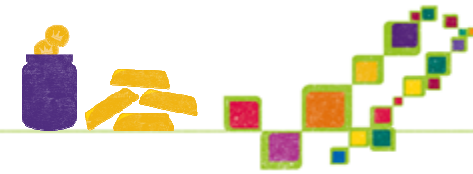
Taxability under current Indirect Tax regime	Expected taxability under GST regime
A. Import of Bullion by Nominated Agencies / Approved Banks / EOU/ Units in SEZ, EPZ	
<p>i. Gold bar, other than tola bar bearing manufacturer's or refiner's engraved serial number and weight expressed in metric units, and gold coins having gold content $\geq 99.5\%$: BCD- 10%; CVD- Nil</p> <p>ii. Gold in any form other than (i), including tola bars and ornaments, but excluding ornaments studded with stones or pearls: BCD- 10%; CVD- Nil</p> <p>iii. Gold dore bar, having gold content not exceeding 95%: BCD- Nil; CVD- 8%</p> <p>iv. Gold ores and concentrates for use in the manufacture of gold: BCD- Nil; CVD- 8%</p> <p>v. Silver, in any form silver content 99.9%, but excludes jewellery: BCD- 10%; CVD- 8%</p>	<ul style="list-style-type: none">• BCD to continue• IGST ??

Indirect Tax Implications



Taxability under current Indirect Tax regime	Expected Taxability under GST regime
<p>B - Sale of bullion from nominated agencies in the form of gold bars</p> <ul style="list-style-type: none">i. Jewellersii. Gold Custodiansiii. Financial institutionsiv. Investors <p><i>(EOU/SEZ not allowed to trade - subject to the conditions specified in Foreign Trade Policy)</i></p>	
<ul style="list-style-type: none">• Local sale: VAT at reduced rates – <i>1% in most of the states</i>• Interstate sale : 1% CST (<i>as the VAT in most of the states is 1%</i>)	<ul style="list-style-type: none">• CGST/SGST applicable• IGST applicable

Indirect Tax Implications



Taxability under current Indirect Tax regime

Expected Taxability under GST regime

C(1) - Sale from Jewellers to final customers takes place through following processes

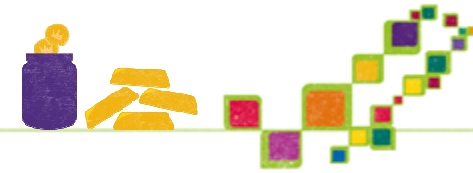
a) – Refining / Recycling process

Central Excise Duty :

- Gold coins of purity $\geq 99.5\%$ bearing a brand name manufactured from gold on which customs duty has been paid: **Nil**
- Gold Bars, other than tola bars bearing manufacturers' engraved serial no. and weight in metric units manufactured in a factory, subject to conditions: **9%**
- Articles of Jewellery: **Nil**
- Other articles of goldsmiths' wares
 - Bearing a under a brand name: **1%**
 - Without a brand name: **Nil**
- Primary Gold in unfinished or semi finished form: **Nil**

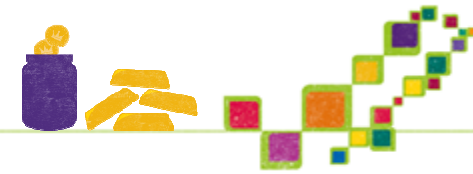
- CGST/SGST applicable
- Exemptions??

Indirect Tax Implications



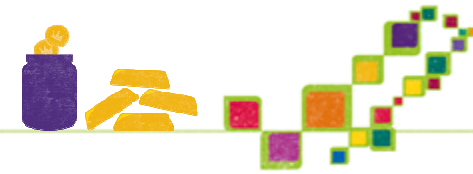
Taxability under current Indirect Tax regime	Expected Taxability under GST regime
<p>C(1) - Sale from Jewellers to final customers takes place through following processes</p>	
<p>b) - Sale of finished jewellery product/bars etc. (Includes charges)</p>	
<ul style="list-style-type: none"> • Local sale: VAT at reduced rates – <i>1% in most of the states</i> • Interstate sale: 1% CST (<i>as the VAT in most of the states is 1%</i>) 	<ul style="list-style-type: none"> • CGST/SGST applicable • IGST applicable
<p>c) - Making Charges /Wastage Charges etc.</p>	
<p>VAT/CST:</p> <ul style="list-style-type: none"> • Currently total value charged to customer is liable to VAT/CST – (<i>making charges not taxed separately</i>) <p>Service Tax:</p> <ul style="list-style-type: none"> • Treated exempt as it is in relation to manufacture of excisable goods 	<ul style="list-style-type: none"> • CGST/SGST/IGST applicable on the total value charge?? • Exemption to Services?
<p>d) – Cutting and polishing of Jewellery as a Job Worker</p>	
<ul style="list-style-type: none"> • Services of cutting and polishing or jewellery as a job worker are exempt as it is in relation to manufacture of excisable goods 	<ul style="list-style-type: none"> • CGST/SGST/IGST applicable on the total value charge?? • Exemption to Services?

Indirect Tax Implications



Taxability under current Indirect Tax regime	Expected Taxability under GST regime
<p>C(2)/C(3): Conversion of gold into Commercial paper</p>	
<p>a) - Gold Exchange Traded Funds (ETFs)</p>	
<ul style="list-style-type: none"> • Transfer of underlying Gold from Fund houses etc. to custodians • VAT /CST may be applicable on the said physical delivery • Issuance of commercial paper in the form of ETF units by the Fund house to investor • No VAT/ CST as there is no actual delivery of Gold. 	<ul style="list-style-type: none"> • CGST/SGST/IGST? • Exemption to continue??
<p>b) - Gold Mutual Fund</p>	
<ul style="list-style-type: none"> • Issuance of units by the Fund house to investor • No VAT/ CST as there is no actual delivery of Gold 	<ul style="list-style-type: none"> • Exemption to continue??

Indirect Tax Implications



Taxability under current Indirect Tax regime	Expected Taxability under GST regime
C(2)/C(3): Conversion of gold into Commercial paper	
c) - Gold Sovereign Bond Funds (GSB)*	
The Said Scheme is a proposed scheme	??
d) - Gold Monetization Scheme (GMS)**	
The Said Scheme is a proposed scheme	??

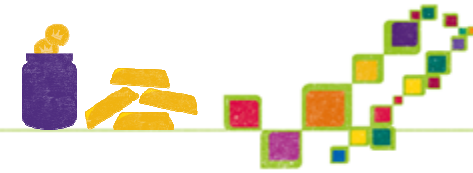
***Draft Framework of GSB:**

- Issued on payment of money and would be linked to the price of gold.
- The Government will issue bonds with a nominal rate of interest of 2% (approx.) .
- On maturity, the investor receives the equivalent of the face value of gold in INR terms

****Draft Framework of GMS:**

- When a customer brings in gold to the counter of specified agency or bank, the purity of gold is determined and exact quantity of gold is credited in the metal account
- The deposited gold will be lent by banks to jewellers at an interest rate little higher than the interest paid to customer
- Both principal and interest to be paid to the depositors of gold, will be 'valued' in gold

GST: Key unanswered questions



Transition rules

- Tax position in relation to on-going contracts
- Whether transition rules would allow credits of non-creditable taxes (such as CST, service tax on post-manufacturing, etc.) under dual-GST
- Whether credits of excise duty paid on closing stock would be available

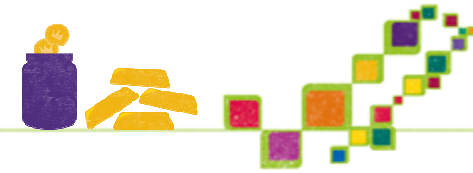
Place of Supply rules

- For goods; whether existing principles under the state specific VAT Acts and Sections 3,4 and 5 of CST Act continues?
- For services; whether current PoPS Rules would continue?

Exemptions/Grants under current regime to continue??

- Whether the existing concessions will continue??
- Units in EOU and SEZ are allowed to import gold subject to conditions specified in FTP
 - RBI has liberalised gold import norms by scrapping the 20:80 scheme

GST: Key unanswered questions



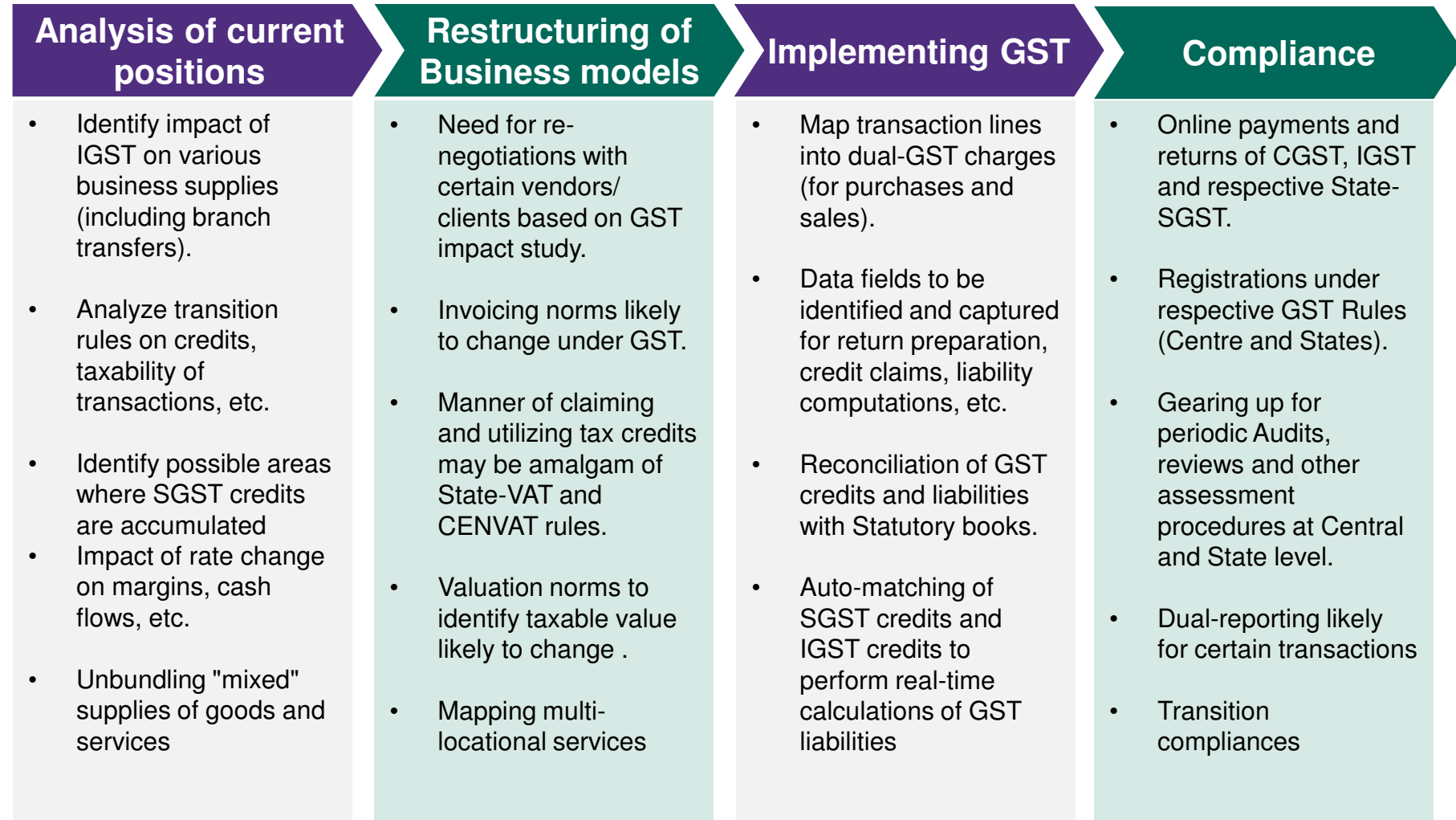
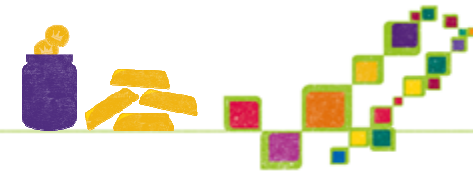
Treatment of current processes like refining/recycling/making charges??

- Whether liable to GST??
- If Yes what value??
- When does the liability get triggered?
- How does this transition in position impact ongoing refining?? (Since trigger to pay may shift to point of sale from point of refining)

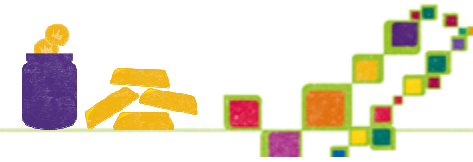
Special rates for Bullion and Jewellery

- It is likely that policy makers may work out a special reduced rate of tax for bullion and Jewellery products under GST given the high intrinsic value of the product

Gearing up for GST



Who we are



40,000
people in over
130
countries

Combined **global**
revenues
US\$ 4.7bn
(2014)

Ranked among
top 5 in
all major markets
including India

Member firm within
Grant Thornton
International

Over
2,000
people

over
700
offices

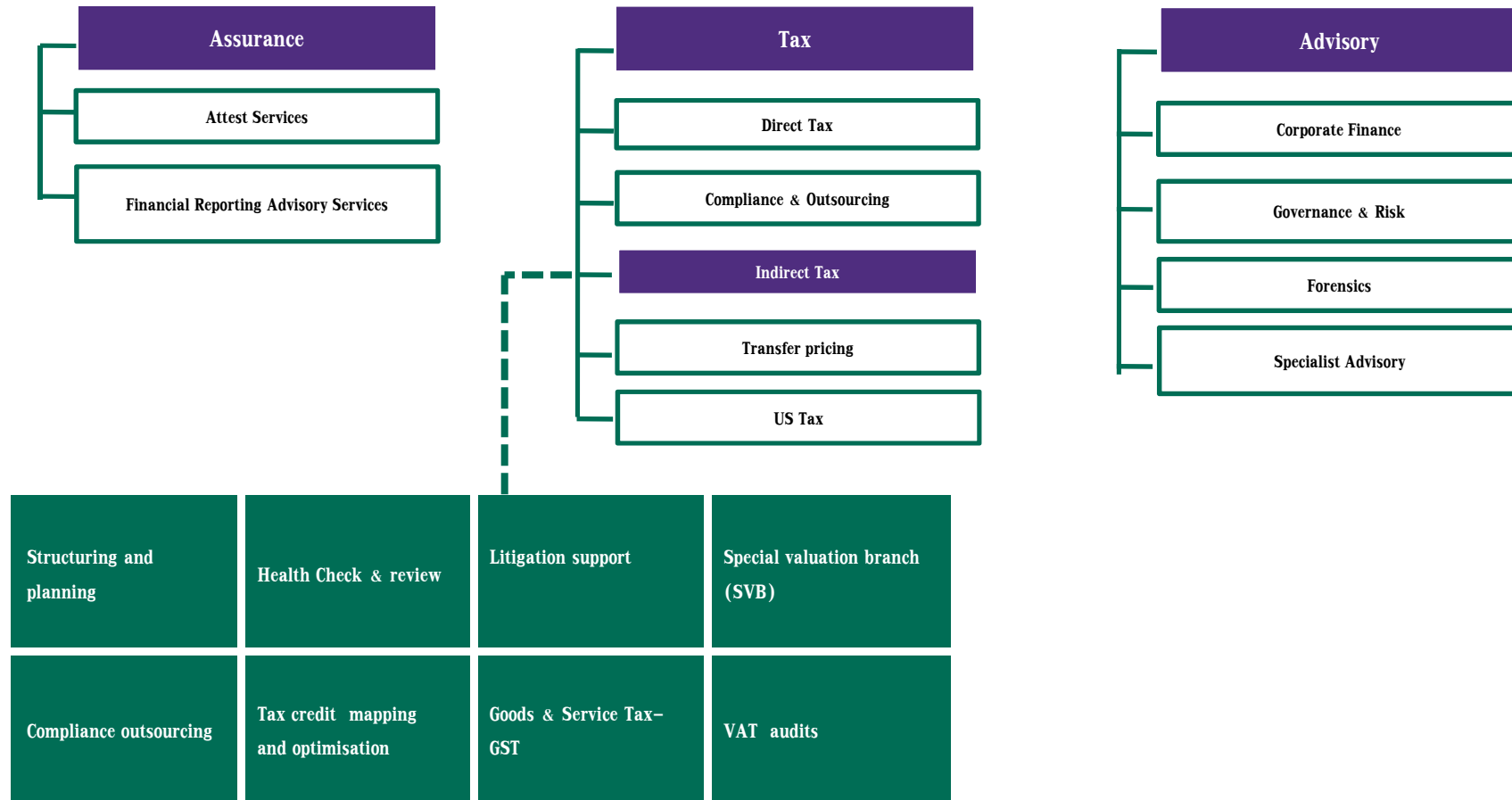
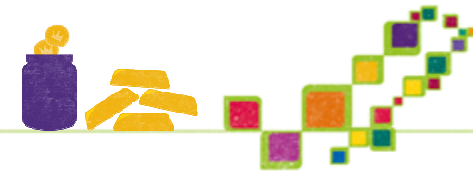
The fastest
growing
large
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network in the
last three years

13
offices

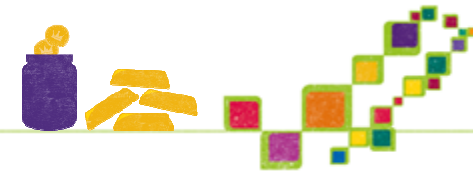
one of the largest
fully integrated
**Assurance,
Tax and Advisory**
firms in India

Presence in 12 major cities of India – Ahmedabad, Delhi, Bengaluru, Chandigarh, Chennai, Gurgaon, Hyderabad, Kochi, Kolkata, Mumbai, Noida and Pune

What we do



What we do



Structuring and Planning

- agreement review/drafting for tax optimisation
- advice on setting up business in tax efficient manner
- identifying mechanism to optimise set-offs and credits

Health check and review

- Evaluation on applicability of indirect taxes
- Examine eligibility of set-off or export benefits
- Examine statutory records/documents maintained for indirect taxes

Special valuation branch (SVB)

- Assistance in preparation of SVB questionnaire
- Representation before the authorities to explain and provide clarifications
- Follow up with authorities to obtain SVB order

Litigation support

- Appearing before all adjudicating authorities and the tribunal
- Represent before advance ruling authorities for specific issues
- Represent before settlement commission for relevant indirect tax matters

Compliance outsourcing

- Assistance in obtaining registrations
- Computation of monthly/ quarterly tax liability
- Assistance in preparation and filing of statutory return

Advisory services

- Evaluating applicability of various indirect taxes on different types of transactions
- Advice on eligibility of claiming exemption/concessions

VAT audits

- Conducting state specific VAT Audits
- Issue audit reports in prescribed format
- Suggestion to improve grey areas and advise on other possible opportunities

Goods & Service Tax - GST

The Indian indirect taxation is rapidly moving towards a nationwide VAT, known as GST. GST would subsume most indirect taxes under a dual GST format comprising of Central GST (CGST) and a State GST (SGST) levied by the Centre and States respectively.

Our support would include:

- Impact analysis of the proposed GST
- Handholding for a smooth transition to the GST regime
- Assistance in procedural and documentation compliances that may be prescribed

Contact us

To know more about Grant Thornton in India, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110001
T +91 11 4278 7070

AHMEDABAD

BSQUARE Managed Offices
7th Floor, Shree Krishna Centre
Nr. Mithakali Six Roads
Navrangpura
Ahmedabad 380009
T +91 76000 01620

BENGALURU

"Wings", 1st Floor
16/1 Cambridge Road
Ulsoor
Bengaluru 560008
T +91 80 4243 0700

CHANDIGARH

B-406A, 4th Floor
L&T Elante Office Building
Industrial Area Phase I
Chandigarh 160002
T +91 172 4338 000

CHENNAI

Arihant Nitco Park, 6th Floor
No.90, Dr. Radhakrishnan Salai
Mylapore
Chennai 600004
T +91 44 4294 0000

GURGAON

21st Floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122002
T +91 124 462 8000

HYDERABAD

7th Floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500016
T +91 40 6630 8200

KOCHI

7th Floor, Modayil Centre point
Warriam road junction
M.G.Road
Kochi 682016
T +91 484 406 4541

KOLKATA

10C Hungerford Street
5th Floor
Kolkata 700017
T +91 33 4050 8000

MUMBAI

16th Floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400013
T +91 22 6626 2600

MUMBAI

9th Floor, Classic Pentagon
Nr Bisleri factory, Western
Express Highway
Andheri (E)
Mumbai 400099
T +91 22 6176 7800

NOIDA

Plot No. 19A, 7th Floor
Sector – 16A
Noida 201301
T +91 120 7109 001

PUNE

401 Century Arcade
Narangji Baug Road
Off Boat Club Road
Pune 411001
T +91 20 4105 7000

For more information or for any queries, write to us at contact@in.gt.com



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