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Question & Answers on GST for Jewellers

Introduction:

The Jeweler and Gems sector contributes a combined GDP of 16%, of which the Jeweler sector contributes around 7% of the country's GDP, and 15.71% to India's total merchandise exports is an incredible part and a massive contributor for the Indian Economy. It provides employment to over 4.64 million workers and is one of the fastest growing sectors. The GST implementation in this sector has proved to be a boon, and along with improving compliance has brought uniformity in the trade. After the implementation of GST, the gold prices have hiked by 0.75% only due to its tax impact.

Q1. What are the GST rates & applicability for Jewellers?

S. No	***Goods or Services supplied***	***Rate***
1	*Diamonds and other precious or semi-precious stones whether polished or unpolished.*	*0.25%*
2	*Gold, Silver, Imitation Jewellery*, etc.*	*3%*
3	*Job work** in relation to cut and polished diamonds, plain or studded jewellery of gold, silver or any other work related to a Goldsmith.*	*5%*
4	*Other professional, technical and business services (residuary clause)*	*18%*

Imitation Jewellery is a jewellery which is made from copper, brass or any other metals. It is polished and sculpted in such a way that is looks like gold or whatever jewellery it is made to represent. The GST rate for copper and brass is 18% therefore for imitation jewellers there arises an **inverted tax structure, for which they can **claim Refund of the accumulated ITC** as per Chapter X Refund of the CGST Act, 2017 & the rules under it.*

***As per Section 2(68) of the GST Act, 2017 Job work is defined as, "any treatment or process undertaken by a person on **goods belonging to another registered person"**. For example, if a customer gives gold to a jeweller for making a gold chain, the jeweller cannot use 5% GST rate on the invoice as the customer may not be a **person registered under the GST Act, 2017.** Therefore, it will have to charge a rate of 18% as it is the residuary clause. Although, **making charges** is a **necessary condition** for Job work, it is **not a sufficient condition** to identify a work as job work as registration is required for the person owning the goods.*

Q2. How to value & apply GST on the jewels and the ancillary works involved?

The following are the intricacies involved in the valuation & application of GST on jewels

*1. Gold has an import duty of 10% the GST levied on the gold should also include the import duty and other ancillary costs as per Section 15 of The CGST Act, 2017. **I.e. Invoice Value = [Value of Gold + 10% Import Duty (if any)] + 3% GST***

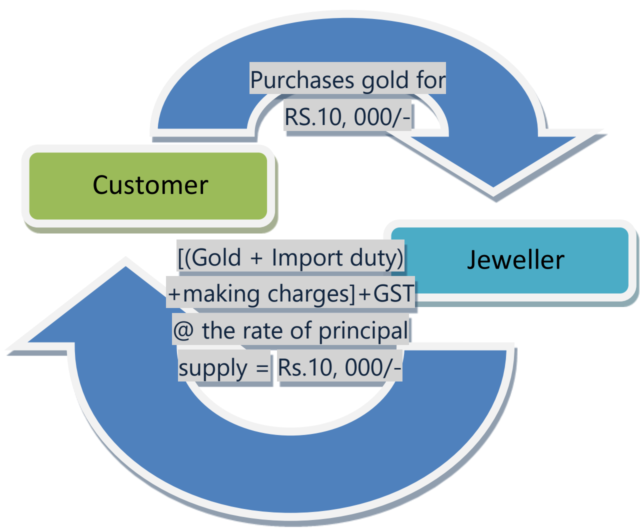
2. There are various GST rates on jewels and the services related to it. Therefore a doubt arises on how to apply GST on such invoices. In this case the jeweller should identify whether it is a mixed supply or composite supply as per Section 8 of the CGST Act, 2017. When a jeweller sells a Gold chain to his customer, he will not only include the value of the gold, but also it's making charges in the invoice given to the customer. In this case, the GST rate for gold is 3% and the GST rate for making charges is 18%. This is a composite supply, therefore the GST rate in the invoice will be the GST rate of the principal goods, which is 3% as gold is the principal supply. As per international standards jewellers have to show break-up value of gold and it's making charges in the invoices. ***I.e. Invoice Value = {[Value of Gold + 10% Import Duty (if any)] +making charges} + GST rate of principal supply.***

3. As per Rule 32(5) of CGST Rules, 2017, the value of supply in case of a person dealing in buying and selling of second hand goods, shall be the difference between the selling price and the purchase price. However, the following conditions need to be fulfilled:

a. used goods are sold as such or after minor processing which does not change the nature of the goods

b. no input tax credit has been availed on the purchase of such goods

*Therefore, if a jeweller buys gold from one person and sells it to another person without making any major additions or changes to it and has not availed ITC, then he can levy GST on the profit and not on the entire price. I.e. Invoice value on sale of second hand jewellery = Selling price of jewellery + [Applicable GST rate * (Selling price - Purchase price)].*



Q3. Why is the GST rate for Jewellery industry low, even though they are Veblen goods/services?

The GST rate for these Veblen goods/services are comparatively less than other Veblen goods or non-veblen goods because the jewellery industry in India has humongous impact directly on its people. To understand this the following need to considered:

(i). Veblen goods are those goods, where the demand for the goods increases as its price increases as the goods
represent status of a person in the society.
(ii). India is the second largest consumer of gold.
(iii). India is a Third World and a developing country.

With the following considerations these conclusions are drawn:

1. Gold prices are increasing day by day and there is good demand for gold in India, therefore the high tax rates might disrupt the demand for the product.

2. Gold is high priced, therefore the low tax rate as in value would be high, but a question may arise that gold is a Veblen good so its demand should increase as its price increases. In this scenario, we should understand that the people are encouraged to buy Veblen goods only due to the increase in its value and not due to the increase in its tax price as taxes discourage purchase of a product. If the consumer wishes to sell the product, he cannot recover the tax he has paid in order to purchase the product. Therefore the tax rates for these goods are kept less which would also increase the tax collection for the government.