

Press Release

GJEPC seeks exemption for GJI export transactions & minimal GST for domestic transactions in representation to GST Council

Mumbai, October 19, 2016: Gem & Jewellery Export Promotion Council (GJEPC), in a representation filed on behalf of the entire gem & jewellery industry, has reiterated that the industry is completely supportive of India's move towards Goods & Services Tax (GST), and is looking forward to migrating to a GST regime but has sought exemption for GJI export transactions and preferred minimal GST rates for domestic transactions even as the GST Council commenced a crucial meeting to set rates. At present, gems & jewellery exports are effectively zero rated. Hence any element of tax in exports is required to be rebated. As regards VAT, it is typically charged at the rate of 1% on the sale price by almost all the states in India.

In its representation, GJEPC mentioned that export transactions should not be subjected to any effective GST as regards exports. All related consumption of raw materials, inputs and input services such as input of rough diamonds gold/ silver/platinum (through duty free export promotion schemes) at the input level should continue to be free from levy of any import duty/GST. In the representation, GJEPC has mentioned that all transactions, whether direct or indirect, for exports, should continue not to be taxed with any indirect taxes in the form of GST.

As regards transactions for domestic consumption (other than those meant for ultimately converging into exports), GJEPC, in its representation, has suggested that the preferred tax rates for different segments of the GJI should be as follows: Rough (Raw) Diamond - 0% (zero); Cut & Polished Diamonds -0% (*the rationale is that in the recent Diamond Insight Report published by the De Beers internationally, it has been stated that India consumes 7% of world diamond produce, which means 93% of India's diamond production is getting exported. The same is true for coloured gemstones like Tanzanites and Emeralds.*) Colored gemstones -0%; Gold/Silver/Platinum Jewellery (including studded jewellery and costume fashion jewellery)- 1.25%; Gold /Silver/Platinum – 1.25% (however, gold procured from nominated agencies for purpose of use in exports should continue to be exempted in line with the existing framework). *Rationale: Most of the states has come down from high VAT rates of 10-12 % in the last decade to 1% which ultimately has increased tax revenue against jewellery sales in all the states of India.*

Mr. Praveenshankar Pandya, Chairman, GJEPC said, "Considering that India has achieved a pre-eminent global position in the gems & jewellery exports and that 4.6 million of skilled & unskilled people are directly employed in the business, and GJI contributes 14% of the India's merchandise exports, it is urged that as currently, all transactions, directly or indirectly, in the course of exports of the products of GJI, should not suffer any tax burden under GST. Considering the extremely high price sensitivity of the products of GJI and the various complexities in the manufacturing and distribution cycle, tax and fiscal policy makers in India have, over several decades, experienced and accepted that, for domestic transactions, a minimal indirect tax rate of 0 – 1.25% best ensures tax compliance and collection, while curbing the well known adverse economic impacts of higher

taxation in the GJI. Given the high price of the products where around 80% - 95% of the content is imported component, diverse sensitivities that the GJI faces as well as considering its economic and social significance, historically, the GJI has always been taxed at the very lowest level in the current system of indirect taxation.”

In its representation, GJEPC has highlighted the key facts with respect to the economic and social significance of the GJI as follows...

(a) The GJI currently offers employment to 4.6 million of our citizens. The GJI offers a unique employment opportunity in the Indian context as it provides employment to millions of skilled workers (Karigars) who are not formally educated and are not readily employable in other sectors. The GJI also provides employment on a cyclical basis to workers who participate in the agricultural sector, for that part of the year in which such workers are not engaged in agriculture. The GJI is also one of the largest employers of woman at various points in the manufacture, distribution and retailing of the products of the GJI. The employment generated by the GJI is not localized to few locations in our Country, but the GJI creates employment opportunities throughout our Country. The GJI thus plays a unique role as an employer in the Indian economy.

(b) The products of the GJI have for long been the preferred instrument of savings, specifically for the lower income group in both rural and urban areas. Jewellery in the form of ‘Streedhan’ and ‘Meher’ have for several centuries defined the concept of security for married women in India. Savings in the form of gold and jewellery, which have an instant encashability, are deeply ingrained elements of our socio economic heritage.

(c) The GJI is highly export-oriented and a major contributor to the foreign exchange earnings (USD 38.59 billion in FY 2015-16), and, therefore, the Government has declared the sector as a thrust area for export promotion. For instance, the diamonds processed in India account for 85% in volume, 92% in pieces and 65% in value of the total world diamond market. (as stated 94% of India’s production of diamonds are exported. Hence any deviation to levy any tax on loose diamonds would affect very adversely the exports of loose diamonds). To facilitate the growth of export segment of this sector, beneficial tax policies have been formulated, which has fostered growth of the GJI in the global market. For example raw (rough) diamonds have been enjoying exemption from duty and other taxes at import level for decades. This has resulted in India becoming world leader in the field of Diamonds. Such leadership is increasingly under strain from nations like China, Vietnam, Thailand, etc. It is therefore imperative that the GST regime continues to fully support exports of the GJI.

(d) The GJI contributes 6% to 7% to India’s GDP. It is hoped that with introduction of GST at the rates requested, this contribution would increase.

The GJI has, since the introduction of Central Excise Duty (‘CED’) in 1944, not been levied to CED, other than for very brief periods of levy, post which also the levy was withdrawn. It was only vide Union Budget 2016-17 that a levy of CED was imposed on articles of jewellery, with the stated motive of transitioning this sector into GST. Even in context of this levy, the Government reaffirmed its understanding of the sensitivities and nuances of the GJI by introducing several specific provisions and procedures to support the levy of CED. Further, the said levy is applicable only if the taxable turnover of the assessee is in excess of Rs. 10 crores. It is pertinent to note that pre-dominant part of the assessees in the GJI fall below the said limit, and, as a result, the levy of CED is only focused on a limited segment of the trade. Under GST, since the threshold for taxable turnover is Rs. 20 lakhs, the

universe of taxpayers within the GJI is likely to increase dramatically. The GJI is therefore predominantly paying indirect tax at an effective rate of 1% (VAT) on its domestic transactions.

Recommendations

Segments	Suggested rate of GST
Gold/Silver/Platinum Jewellery (including studded jewellery and costume fashion jewellery)	1.25%
Gold /Silver/Platinum	1.25% (however, gold procured from nominated agencies for purpose of use in exports should continue to be exempted in line with the existing framework)
Rough (Raw) Diamond	0%
Cut & Polished Diamonds	0%
Colored gemstones	0%

About GJEPC

The Gem & Jewellery Export Promotion Council (GJEPC) was set up by the Ministry of Commerce and industry, Government of India (GoI) in 1966. It was one of several Export Promotion Councils (EPCs) launched by the Indian Government, to boost the country's export thrust, when India's post-Independence economy began making forays in the international markets. Since 1998, the GJEPC has been granted autonomous status. The GJEPC is the apex body of the gems & jewellery industry and today it represents over 6,000 exporters in the sector. With headquarters in Mumbai, the GJEPC has Regional Offices in New Delhi, Kolkata, Chennai, Surat and Jaipur, all of which are major centres for the industry. It thus has a wide reach and is able to have a closer interaction with members to serve them in a direct and more meaningful manner. Over the past decades, the GJEPC has emerged as one of the most active EPCs, and has continuously strived to both expand its reach and depth in its promotional activities as well as widen and increase services to its members.

For more information, registration and confirmations:

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