Our Failure: The Import Duty on Gold

The Annual Budget 2019 left the industry in a state of shock when the proposal to increase the import duty from 10% to 12.5% was announced. Leading up to the Budget, the entire industry was expecting a drastic reduction in the import duty, but this was not to be. The industry no longer wishes for any reduction from the pre-2019 levels and merely hopes for a rollback to 10%, in hope that no further damage to the sector is inflicted and to 'cut their losses' and do away with any further wishful thinking. However, I do not believe that this is the correct path to redemption. What needs to be better understood is why this import duty was even considered for increase in the first place.

Much has been spoken of the current account deficit, (CAD), and the need to reduce the same. Broadly speaking, the CAD is the result of the country spending foreign exchange for imports of various products. Obviously, there are varying degrees of importance and, as such, items that offer little or no benefit to the economy are discouraged for imports. Take, for example, the case of mineral fuels, (including oil), imports, which is the single largest imported item for the country. But as this is viewed as a necessity, there is never any talk around the reduction of such imports. That is, these imports are considered critical for the welfare of the country, thus they continue unabated.

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Now take the case of gold, which is nearly 60% less in value terms of mineral fuels, (including oil), imports. Unfortunately, gold is merely viewed as a 'non-productive asset' and not as an industry thus not needed for the growth of the economy of the nation. The fact that the industry is INR 6,50,000 crores in size, contributes 7% of the GDP and 16% of the merchandise exports, provides 61 lac jobs, (which is predicted to increase to 94 lac jobs by 2022 according to the Ministry of Skill Development), while being constituted 90-95% by MSMEs is continually overlooked. And this is our failing.

Ideally, the gold industry should be viewed by policymakers as that; an industry. Doing so would compel policymakers to view us as contributory for the economy from all perspectives such as exports, job creation, indirect and direct tax collection, rural upliftment etc. The current view limits this industry as a villain in the current account deficit equation, black money channelisers and an overall problem-maker for the good of India. All of this is incorrect, but perceptions form opinions and our industry perception is a negative one. It is for this that we have been relegated for tax collection via import duty. The policymakers are merely trying to make lemonade of the proverbial lemon and are collecting tax wherever possible. To reverse this would entail an exercise to better educate them on the offerings of the industry from the economy standpoint.

But why should the import duty be reduced? How would the government specifically benefit with its reduction?

The Watal Committee Report published by NITI Aayog under the Chairmanship of Mr Ratan P Watal, Principal Advisor & Member-Secretary, Economic Advisory Committee to the Prime Minister articulated the aspiration for the tax and duty structure on this sector as "Accelerating investments and enabling exports though progressive, efficient and optimal tax policy". This clearly establishes the mindset of the report to be one that views this sector as one of potential benefit for the economy and proposed to use the tax and duty structure to help further grow this industry.

More specifically, a reduction in the import duty can result in a huge boost for gold jewellery exports if reduced to -nil-. While the Gold Monetisation Scheme, (GMS), was launched to recycle the 22000 tonnes of gold that is within the households and temples of India, no policymaker has taken cognisance of the 6000-9000 tonnes of gold jewellery that sits as inventory within the industry. A reduction of the import duty to -nil- would make all this jewellery saleable in the international markets immediately. It was recently reported that 60% of all handmade gold jewellery exported from Dubai was classified as 'Indian jewellery'. This suggests that international buyers are going to Dubai to purchase Indian jewellery, (which is manufactured locally through relocating the Indian karigar to Dubai). This is a huge opportunity which should be taken advantage of by the policymakers.

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As for the domestic market, both national and international media have reported that the gold prices are available at a discount currently in India. That is, gold imported through official channels is priced 4-6% higher than what is being quoted in the domestic market, due to the high availability of smuggled gold. This, therefore, means that compliant jewellers are negatively impacted, and their profitability is stressed due to smuggled gold. Obviously, this serves as a disincentive to migrate to the official sector, which is a high priority for the government. It may be prudent to point out that when the import duty was effectively 1-2%, there was an incentive to report financial transactions as smuggled gold was priced higher than officially imported gold, which could only be purchased officially. if viewed from a holistically, this policy reversal is damaging the economy immensely.

The Watal Committee Report also recommends a reduction in the GST level, increase in levels for PAN Card requirement etc. Quite frankly, it presents the case for the industry better than the industry members have been doing over the past years. Common sense tells us that the singular demand throughout the industry should be the implementation of the recommendations of the Watal Committee Report. Not doing so is our failure. ▪

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