

Analyzing The Impact On Gold Price Pre And Post Gst Implementation

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ABSTRACT

As compared to the previous, flawed, multi-taxation system, GST is seen as a significant improvement and is therefore seen as a tax reform in the country. Simultaneously, it assures clear and consistent taxation, controls the unorganized sector, improves logistics' effectiveness, and simplifies and reduces the complexity of administrative processes. The jewellery industry was predicted to see a significant impact from GST, although an adverse one. Initial reports indicated that jewelers would be required to pay a GST of 3% on gold items sold to consumers. All gold saw a drop in demand once GST was applied, which had an effect on its price. By comparing the pre- and post-GST trends in Gold prices and the market capitalization of the top 5 jewellery manufacturers, this study employed the paired sample T test to determine whether or not GST has had an effect on the jewellery industry. There are two time frames covered by this analysis: 14 days (for the short term) and 308 days (for the long term).

Keywords: Gold, Jewellery, Market, Share, Price, Taxation.

I. INTRODUCTION

In 2017, on July 1st, GST entered into effect as part of India's constitutional revisions under the Modi government. Several federal and state taxes that had been decreasing in total were restored by this tax. The Goods and Services Tax (GST) is an indirect sales tax in India. GST has five tax brackets: 0%, 5%, 12%, 18%, and 28%. The GST council determines the goods and

services tax rates. The tax cascade is reduced thanks to GST, and logistics are streamlined as a result. x. Several indirect expenses can be cut with the use of GST. Its cost-cutting effects are felt across the board in the industrial industry, from inventory management to shipping.

Gold has been a popular choice for investors for thousands of years and is one of the oldest precious metals known to humans. The many and interesting uses to which gold has been put throughout history are a testament to this fact.

Modern Indian gold jewellery is evolving rapidly to meet the demands of a diverse consumer base. Necklaces, bracelets, and earring designs from the past are updated. Historically, Indian gold jewellery was known for its heft due to the abundance of precious stones and pearls it contained. Nonetheless, modern pieces of jewellery are far more lightweight and understated in design. The reason for this is because consumers choose single-stone or diamond jewellery designs that can be worn to both special events and the workplace. In terms of both design and execution, Indian jewellery is a true work of art. Old methods are given a fresh spin. The jewellery designs from India are equally creative. Gold jewellery from India is growing in popularity, especially ancient pieces and those designed by contemporary artists.

The gold industry in India is extremely important, accounting for over 7% of the country's GDP. This industry relies on import and export, and it also employs people because it requires them to perform manual labour. In addition to being a major center for the gold and jewellery industry, India also offers competent workers at competitive prices. The Indian government is likewise keen on bolstering the country's gold exports. The government of India has approved a policy that allows for complete foreign direct investment through the automatic method. Due to the increasing importance of the gold industry, it is crucial that GST be implemented. Only alcoholic beverages sold for human use and gasoline/petroleum goods were exempt from Tax. Gold and gold jewellery were subject to a 3% GST rate, on top of the 10% customs duty and 5% manufacturing costs. The government now levies more taxes on gold and gold jewellery than it did in the past. The government's revenue rises when rates are adjusted, and with the advent of digitization in GST, accountability is improved. But, with GST, ITC is available for all

transactions, whereas in VAT and CST, it was only available for certain types of purchases. No ITC is available for composition tax. The GST payers should be persuaded by the CBIC not to use composition tax so that they can take advantage of input tax credits.

The council delayed announcing the GST on Gold rate until near the end of the process. The council has settled on a 3% Tax on gold. There was an extra 1% in excise tax, plus 1.5% in VAT and 5% in manufacturer's tax. At the moment, gold is subject to a 10% import tariff, plus GST of 3% and a 5% processing fee. If GST works as planned, the gold market should become more open and regulated. As a result of GST, the unorganized sector's share of the gold-selling market will increase as the difference in prices between the two types of businesses narrows. Customers can buy new jewellery and deduct the purchase price from their taxable income when selling their old jewellery. That when they sell their old jewellery, they'll pay a 3% GST on the transaction, but that they'll get that money back when they buy new jewellery.

II. REVIEW OF LITERATURE

R., Sugirtha & Babu, Manivannan. (2020) All nations were alerted to the Goods and Services Tax (GST). Once Goods and Services Tax (GST) was implemented, prices rose for certain items while falling for others. Hence, many people just learned about the GST's drawbacks. This study set out to analyze the changes in the value of gold and silver before and after the introduction of GST. We used descriptive statistics, the Augmented Dickey-Fuller Test, and the GARCH (1, 1) Model for our investigation. The study indicated that when gold prices were compared before and after GST was imposed, the period before GST resulted in far less price volatility. Yet, the introduction of GST considerably reduced the volatility of silver prices. Gold and silver prices were affected by reports of government and market intervention in the economy. Because of the current economic climate, purchasing gold and silver may not be the best idea.

Vyas, Yagna. (2019) The gold market and the Goods and Services Tax (GST) are both significant to India's economy (GST). New employment opportunities made possible by the expanding gold sector and the GST. The primary purpose of this research is to determine if jewelers understand the impact of GST on the value of gold. One hundred registered jewelers

from the cities of Vapi and Valsad filled out questionnaires in person. There are few jewellery stores, but most of the people working in the field are really manufacturers. Their knowledge of the registration process, late fees, and interest has been evaluated and validated. They seem unfazed by the mounting pressure of their deadlines. Supply and demand, as well as the Goods and Services Tax, all have an impact on the value of gold and jewellery (GST). When compared to the former tax system (VAT), which had lower rates, the present Goods and Services Tax (GST) is much higher. The study's tiny sample size makes generalizations about the jewellery sector impossible. Including a wider region strengthens the study's conclusions, and while it presently concentrates on the unorganized sector, expanding into the organized sector would be an intriguing next step.

Ankur Kukreti and D C Agrawal (2018) The purpose of this article is to examine how the Goods and Services Tax (GST) has impacted the price of gold in India. Both necessary and helpful data have been used in order to reach this goal. After implementing Goods and Services tax, Author has tried to show that the above-mentioned key factors are going to alter, hence impacting the whole Indian economy, despite the fact that Author has recognized relatively few essential characteristics for driving the economy of any nation. Therefore, the Author has attempted to dissect the impact of Goods and Services tax on these parameters and the Indian economy by conducting a self-designed poll using an 11-point Likert scale, with 10 indicating the most significant impact that the implementation of Goods and Services tax would have on a specific parameter and 0 indicating the least impact. In the future, the impact of many criteria on India's economy will be clarified by employing a number of relapse procedures based on fundamental condition.

Harsh kundaria (2017) His study "GST Impact on Gold Jewelry" claims that "larger players" will benefit more from the tax. Based on the results of his study, he claims that gold was subject to a 3% GST, which was more progressive than other taxes at the time. The value added tax was lower than anticipated, and many of the duties will change. Several minor tweaks were made to the GST installation later on. There will be a narrower pricing difference between the organized and unorganized players as a result of the increased competition.

Surabhi (2017) The article "GST Council may consider tax rate on gold at Udaipur meet" provided the data for his study. He wrote that federal and state governments could be counted on to predictably tax gold as his principal area of concern. Upon further research, he learned that the central and state governments had agreed to set the GST rate on gold metal at 4%, which would be finalized at the GST councils' meeting on February 18 in Udaipur.

III. GST TAXATION ON GOLD

Gold's rarity and intrinsic value have made it a reliable store of value from ancient times. Gold has a long and illustrious history of use in a wide range of industries and technological contexts.

Particulars	Before GST	After GST
Price of Gold	100	100
Custom Duty (10%)	10	10
A+B	110	110
Excise (1%)	1.1	0
C+D	111.1	110
VAT (1%)	1.1	0
E+F	112.2	110
GST (3%)	0	3.3
G+H	112.2	113.3
Total Price of Jewellery	112.2	113.3
Total Taxes and Duties (B+D+F+H)	12.2	13.3

The GST rate on gold was supposed to be declared by the council once all the other rates had been made public. The government set the rate at 3%, which was an increase of 1% above the previous taxes rate. As a result, a 10% import tariff and 3% GST are currently levied on gold. Now that the 1% excise

duty has been waived, the product is more affordable. The implementation of GST has improved transparency and organization in the jewellery industry. As a result of GST, the price differential between the organized and unorganized enterprises selling the gold shrank, allowing the latter to gain a larger portion of the market. Customers may now buy and sell gold jewellery without incurring any tax consequences. If you sell your old gold jewellery, you'll have to pay a 3% GST on the sale, but you'll be able to deduct that amount from the GST you pay when you buy your new gold jewellery.

IV. RESEARCH METHODOLOGY

The daily stock price and market index for 5 companies was obtained from the National Stock Exchange (NSE), while the daily gold price and commodex market index were obtained from the Multi Commodity Exchange (MCX) for this study. The paired sample T test was employed to conduct the analysis. By comparing the pre- and post-GST state of Gold Prices and the top 5 firms, we can better deduce whether or not GST has had an effect on the Jewelry Industry.

There is a 14-day baseline and a 308-day terminal period in the analysis. It can analyze data over a very short time frame (14 days) or over a relatively lengthy time frame (308 days). These time periods were selected so that we could learn definitively whether or not GST has any effect on the jewellery industry over the short or long term. SPSS, or the Statistical Package for the Social Sciences, was used to calculate the exam's outcomes.

All of the aforementioned information spans the years 2018 and 2020, and it comes from the NSE and MCX websites. The research uses Excel and the Capital Asset Pricing Model to compute anomalous returns. The justification for this is as follows.

Abnormal Returns = Actual Returns – Expected Returns

Where,

$$\text{Actual Returns On Excel} = \text{LN} \left(\frac{\text{Today's Price}}{\text{Yesterday's Price}} \right) * 100$$

Expected Returns on Excel = Intercept (Actual Returns, Market Returns) + Slope (Actual Returns, Market Returns)

The consistency between the Paired Sample T test findings and the graphical result was tested by doing further trend analysis. The study uses pre- and post-GST anomalous returns to analyze trends across all three time periods.

V. DATA ANALYSIS AND INTERPRETATION

Table 1: Paired Samples Test 14 days Gold Prices

		Paired Differences					t	d f	Sig. (2- tail ed)
		Me an	Std. Devia tion	Std. Err or Me an	95% Confidenc e Interval of the Differenc e				
					Lo wer	Up per			
P ai r 1	PREG ST - POST GST	.12 730	.5223 8	.13 959	- .17 426	.42 890	.9 12	1 3	.37 8

It is clear from Table 1 that the likelihood is higher than 0.05. There was, therefore, no appreciable change in the gold price's performance either before or after GST was implemented.

Table 2: Paired Samples Test 308 days Gold Prices

	Paired Differences				t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			
				Lower			

P	PRE	-	.8449	.04	-	.07	-	3	.61
ai	GST -	.02	6	830	.11	049	.5	0	1
r	POST	456			961		08	5	
1	GST								

Much more convincingly, the probability value in Table 2 is more than 0.05. Gold's performance prior to and after GST was implemented was, thus, equivalent.



Figure 1: Trend analysis of Gold Prices for 14 days

Figure 1 compares the abnormal returns of Gold prices for the 14 days before and after GST was implemented. We can see that there is more volatility in Gold prices for both before and after GST, and since we can't discern any change in trend, we can conclude that GST has had little to no effect on Gold prices.

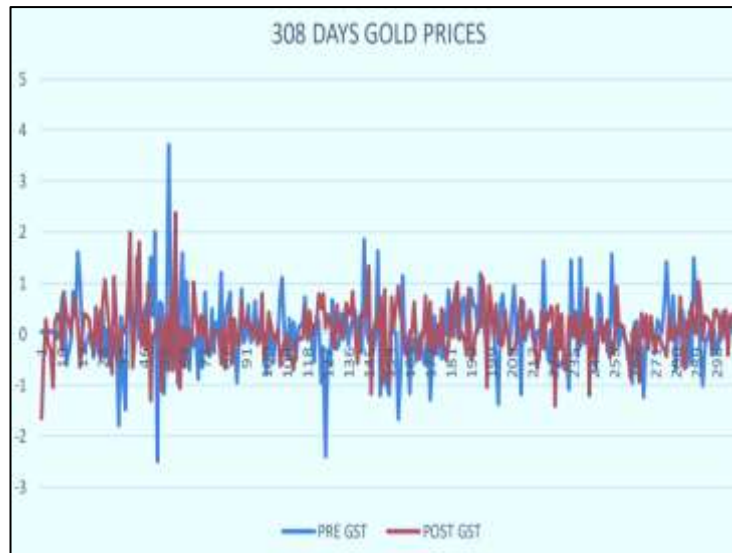


Figure 2: Trend analysis of Gold Prices for 308 days

Figure 2 shows the anomalous returns of the gold price for 308 days before and after GST was implemented; revealing that gold prices are volatile both before and after GST was implemented. Furthermore, it is evident that the Gold Price was more volatile before GST was implemented than it was after it was implemented; this may be attributable to extraneous variables that are beyond the scope of this research. We may draw this conclusion since we have not observed a shift in the general trend of gold prices since the implementation of GST.

VI. CONCLUSION

After this reform was announced, a brainstorming session took place to keep a reasonable GST rate on jewellery, especially on gold. During this session, the government imposed a GST of 3% on the gold. With this rate, the gold jewelers were happy because the tax that was imposed on gold was comparatively less than expected according to the initial GST slabs. The present study which has been done to know whether GST has an impact on Jewellery Industry or not by considering Gold Prices and 5 companies share prices for different time periods that include 14 days and 308 days pre and post GST, concludes that there is no significant impact of GST on Jewellery Industry.

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