

Kerala, Maharashtra jewellers cry foul over VAT disparity

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HIGHER value-added tax is depriving some of the large gold consuming states a level-playing field. While Kerala jewellers have been lamenting over the five per cent VAT in the state against one per cent in other states, Maharashtra government too has recently increased the tax. Kerala a major gold consumer fears buyers to move to neighbouring states and Maharashtra is apprehensive about the manufacturing units shifting base to Gujarat. While almost all the states levy only one per cent VAT, Kerala government has

been imposing five per cent VAT on jewellery purchases. In 2005-06, the Kerala government raised VAT from one per cent to four per cent after finding that the tax revenue from the sector has been lower than estimates. In 2012-13 it was further raised to five per cent. According to M P Ahmed, chairman of Malabar Gold and general secretary of Kerala Jewellers Federation, a buyer in Kerala ends up paying around Rs 1,000 more for a sovereign (eight gram) of 22 carat gold compared with other states. This has been detrimental for the jewellery retail in the state, which is the second largest consumer of gold after

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Prithviraj Kothari
MD, Riddi Siddhi Bullions

Tamil Nadu. The state consumes around 25 per cent of the country's annual gold imports.

"As per estimates, one per cent VAT should have brought a tax revenue of Rs 800 crore to the state exchequer. But in 2010-11, the government received only Rs 225 crore and Rs 302 crore in 2011-12 as tax revenue from jewellery purchases. This clearly shows that majority of the purchases are unaccounted," he said.

The organised jewellery retailers have been asking the government to provide a level-playing field by bringing down the tax to one per cent.

Similarly, the Maharashtra government has raised the VAT on gold, silver, other precious metals, diamonds, and jewellery to 1.1 per cent from one per cent in its recent budget. The tax on the manufacturing equipment has been raised from one to five per cent.

Being a hub for jewellery manufacturing, the industry expects this will see a shift of the units from the state to neighbouring Gujarat.

"Gold price in Maharashtra will become costlier by Rs 6,000 per kg (inclusive of Octroi and additional VAT) when compared with other states. This additional cost will definitely reduce the de-

mand for gold in Mumbai and will have a negative impact on the gem and jewellery sector. This additional VAT will compel manufacturers to shift their base to other states," said Prithviraj Kothari, managing director, Riddi Siddhi Bullions.

"We have seen a similar shift when an Octroi of two per cent was levied on silver two years back. A large number of silver jewellery units shifted to Gujarat as the state does not have Octroi. Increase in VAT too will lead to a similar situation in gold jewellery," said Mukesh Kothari, director of Riddi Siddhi Bullions.

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