

Tough fight ahead for Narendra Modi govt to make gold jewellery buying transparent

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The jewellery trade says the Narendra Modi government's plans to trace gold deals is unworkable and won't deter holders of black money, or hundreds of millions of Indians outside the tax net, from buying gold to keep their wealth away from the prying eyes of the authorities.

If the proposals fail, gold inflows will continue unabated in a country that accounts for nearly a fifth of global demand and stymie Modi's effort to create a new asset class that could lure savers and back investments.

To track larger gold deals, this year's budget declared that, from June 1, customers would have to disclose their tax code, or Permanent Account Number (PAN), for purchases above 100,000 Indian rupees (\$1,580). But jewellers – many of whom voted for Modi – have protested, delaying the new rule.

“No jeweller will refuse to sell just because the customer doesn't have a PAN card. He will find a way to ensure the customer leaves the store with jewellery,” said Bachhraj Bamalwa of the All India Gems and Jewellery Trade Federation.

A Reuters poll of a dozen jewellers and dealers found that black money generates nearly a quarter of annual gold demand that totalled some 900 tonnes that is worth nearly \$34 billion at current prices.

Two-thirds of gold demand comes from rural areas where jewellery is a traditional store of wealth. Under Modi, India has opened 160 million new bank accounts but half are idle, suggesting old habits die hard.

And, in a country of 1.25 billion people, only 140 million have PAN cards.

The finance ministry's tax department has forwarded the so-called 'notification' that would put the PAN card rule into effect to higher authorities, but “no decision has been taken so far”, a senior official said.

“The final decision probably needs political approval as it could have wider ramifications,” added the official, who was not authorised to speak on the record.

BLACK MONEY FLOW

To try and divert some of the estimated 300 tonnes of annual demand for gold bars and coins to paper gold, the government also plans to issue bonds linked to the bullion price.

That's not an attractive option for people who park illicit wealth in physical gold, however.

“It is easier to hide unaccounted money in gold compared to other asset classes like property or shares. Such people are unlikely to switch to gold bonds,” says Daman Prakash Rathod, director at Chennai-based wholesaler MNC Bullion.

The government has also proposed a gold deposit scheme to mobilise some of the 21,000 tonnes of gold held by households and temples.

EASY TO OVERRULE

Though the formal notification to enforce the PAN card rule has yet to be issued, jewellers have already found ways to beat it, by issuing many small invoices or writing informal receipts.

It's a reminder that ill-conceived regulation can have unintended consequences, as happened after India raised import taxes on gold to 10 percent in a series of hikes to August 2013.

The duty failed to curb demand, but revived smuggling networks which, the World Gold Council estimates, imported 175 tonnes of gold in 2014.

The best way to curb gold demand is by reducing black money in circulation; not by restricting gold trading, says a Dubai-based bullion supplier who, like other market players, requested anonymity.

“People are not accumulating black money to buy gold,” he said. “It's the opposite. They want to have black money and gold is providing them cover.”

(Financial Express)