Impact of GST on Indian Economy

Description

Positive Impact :-

- As there will be no inter-state tax, transport of goods will be much easier. There will be no burden of check posts for states. And this will benefit transport industry and suppliers of goods as well. This leads to improved business efficiency, which inturn helps improving economy.
- With the elimination inter-state tax, more goods will be imported and exported among states . This leads to improved business and hence improved economy.
- Input tax credit allows people to claim the tax paid by their suppliers. Then, no one will buy goods from those who do not pay taxes. This leads to reduction in tax evasions and hence more money from taxes to Indian government.
- With the tax benefits GST provides, it will reduce the prices of goods in the long run. This will increase consumerism and hence improves economy.
- GST is a global standard tax. And hence with the implementation of GST, India will gain the trust of foreign investors. More investments will help economy.

Negative Impact :-

- Smuggled goods may travel freely throughout the country once they cross the border, because of no separate checking at states. If this happens, it will be impact Indian economy negatively.
- Prices of goods that are bought by upper middle classes and upper classes are increased. This may deter them from buying such kind of products. This will lead to decreased demand -> decreased production -> Impacts economy negatively.
- With the increased competition from the goods from other states, local people may feel discriminated. This may lead to decrease in quality of products to cope up with the competition.

What is GST :-

- 'Goods & Services Tax' (GST) is the biggest tax reform in India till now. GST replaces all the indirect taxes in the country.
- At present there are different tax rates in different states. With GST, tax rates will be equal through out the country.
- All the indirect taxes such as Excise tax, sales tax, service tax etc. will be replaced by GST.
- GST also eliminates double taxation. Till now, manufacturers have to pay tax on the goods they manufactured. For example, the maker of wooden toys had to pay tax on the rate of the toy, that he is going to sell. But with GST, he has to pay tax only on the value he added, that means he bought wood from another manufacturer and he added value to it by transforming the wood into toys. He will not pay tax on the wood, because tax on wood was already paid by the wood manufacturer.
- GST is going to be implemented from July 1st, 2017.
- A four-tier GST tax structure of 5%, 12%, 18% & 28% will be implemented based on the type of products. For essential goods like food, GST will be 5%, and for luxury goods, GST will be 28%.
- GST is an international tax regime. More than 160 countries already implemented GST.

What is "Input tax credit" :-

First of all, "input tax" means tax you pay to the govt for the goods you buy. "Output tax" means tax you pay to the govt for the goods you sell. This "output tax" will be added to price of the product and hence will be paid by consumers.

And now, let's see what is the meaning of "input tax credit"…

For example, Fathima manufacture dresses. She needs to pay Rs.50 tax to government on each dress she sells.

She bought fabric from Anusha. Anusha paid tax Rs.40 to government on the fabric she sold.

So, now Fathima pays only tax Rs.10 to government and informs govt about Rs.40 that Anusha paid on fabric. Government checks the receipts. And then, on paper the total tax Fathima paid is written as Rs.50/-. This is the concept of "Input Tax Credit". That means you can claim the "credit" of "Input tax" that is paid by your supplier of raw goods.

Conclusion :-

Though there will be some confusion and price rises in the initial stages of implementing GST, in the long run GST will boost Indian Economy.

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Afterwords :- What is your opinion on this topic? Did we miss any point? Express your thoughts in the comment section below.