

IMPACT OF GST ON AGRICULTURE SECTOR

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Abstract

Goods and Services Tax is a single and a broad based tax levied on goods and services consumed in an economy. Agricultural sector has been the root of Indian economy and it contributes to around 17.4 per cent to GDP. About 52 percent of the total rural livelihood depends on this sector as their primary means of livelihood, so it is important to study the impact of GST on the Agriculture sector. GST will have both positive and negative effect on Agriculture. Agriculture is principal source of livelihood and 20% contributor of total gross domestic product with flagging of 10% on account of total exports. In current tax regime, agriculture has enjoyed a various exemptions from indirect tax. Sale of agriculture commodities is exempt from VAT. Concessional rates have been imposed on agricultural accessories and supporting machineries. As the GST is being introduced with the unbiased objective of having a unified tax structure for goods and services, this is likely to facilitate and strengthen the Scheme on National Agricultural Market (NAM) aimed at an integrated system of market of agriculture produce at the national level, allowing free flow of agricultural commodities across states. This paper is helpful in bringing out the light on Impact of GST on Agriculture Sector.

Introduction

Agriculture is one of the most critical sectors of the Indian economy. Growth and development of agriculture and allied sector directly affects well-being of people at large, rural prosperity and employment and forms an important resource base for a number of agro-based industries and agro-services. The agriculture sector in India has undergone significant structural changes in the form of decrease in share of GDP from 30 per cent in 1990-91 to 17.4 in 2015-16 (Annual Report, 2015-16 MoA & FW) indicating a shift from the traditional agrarian economy towards a service dominated one. However, this decrease in agriculture's contribution to GDP has not been accompanied by a matching reduction in the share of agriculture in employment. About 52 per cent of the total workforce is still employed by the farm sector which makes more than half of the Indian population dependent on agriculture for sustenance.

Value addition in agriculture, thus, holds huge potential for enhancing the living standard of majority of the people. Improved agriculture marketing offers a major opportunity to achieve this objective. Goods and service tax will have both negative and positive impact on agriculture. The price of agricultural commodities will go down, as previously the agricultural commodities are charged with different prices within the state, inter-state and in overall country. GST is expected to create a

business friendly environment, as price level and inflation rate go down. Good and Service tax has single tax structure as it leads to unified market at national level for goods and services. The implementation of GST is expected to bring uniformity across states and centre which would make tax support policy of a particular commodity effective. Good and Services Tax (GST) was predicted to have a simple harmonized tax structure with operational ease leading to a single unified market at national level for goods and services while ensuring that there is no negative revenue impact on the states.

Effect of GST

The impact of GST on agricultural sector is foreseen to be positive. The agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. The implementation of GST would have an impact on many sections of the society. One of the major issues faced by the agricultural sector is the transportation of agriculture products across state lines all over India. It is highly probable that GST shall resolve the issue of the transportation. GST may provide India with its first National Market for the agricultural goods. There are a lot of clarifications which need to be provided for rates for agricultural products. Special reduced rates should be declared for items like tea, coffee, and milk under the GST.

GST Effect on Agriculture Sector in India

The newly implemented indirect tax regime is influencing the agriculture industry and farmers due to the 5 per cent GST rates on agricultural products. It is expected that in long term the industry is foreseen to be positive. GST was a long awaited tax reform since Independence that was passed by both houses of Parliament including Lok Sabha and Rajya Sabha and came into effect from 1st July 2017 across India. The GST Council has announced the 5 percent GST rates on agricultural products. After the introduction of Goods and Services Tax (GST) is influencing the common people living in all section sections of the society. We have already covered its impact on the lives of common man and oil and gas sector.

Benefits of GST in Agricultural Sector

- The agriculture sector would be exempted from undertaking GST compliances as well.
- All basic agriculture goods (not processed) which are not chargeable under current VAT Laws would not be charged to tax in GST.
- GST implementation will play favourable role for National Agricultural Market on merging all the different taxations on agricultural products. Once transportation facilitated, it will improve the marketing efficiency and create access to virtual world.
- GST is vital to enhance the performance of supply chain mechanism in terms of transparency, reliability and timeliness, which in turn will ensure reduction in waste and cost of agricultural produce.
- Agricultural sector has been kept outside from undertaking GST compliances.
- Will reduce the time taken for inter-state transportation.
- Service tax will also be exempted in various services related to agricultural produce.
- An agriculturist would come under non-taxable person.
- All basic agriculture goods (not processed) which are not chargeable under current VAT Laws would not be charged to tax in GST.

Demerits of GST in Agricultural Sector

- Shortages in agricultural goods which are imported as domestic produce could not fulfill the requirement are charged with custom duty. As custom duty would not be subsumed in GST custom duty would continue.

Hence, the exemption from basic duty on basic agricultural produce like pulses would continue.

- The main impact that GST in agriculture would bring is the inflation with currently 4% VAT being increased to 8% on many food items including cereals and grains as the exemption under VAT is limited to unprocessed food. The most affected from the inflation would be the consumers living below the poverty line.
- Because custom duty will not subsume GST, it will continue to impose on agricultural imports.
- GST is all set to increase the prices of most agricultural inputs like seeds, pesticides and farm equipments resulting into increase in cost of production for farmers.
- Also as GST being single source of tax across nation will not allow farmers any more to take advantage of inter-state price variations. Similarly they will find difficult to get cheaper inputs due to constant pricing across states unlike in previous states laws.
- Fertilizers like Urea, DAT, Potash, will bear a spike tax rate in GST.
- Drip and sprinkler irrigation equipment, which currently attracts a VAT rate of 5%, will be taxed at 18% under GST. Similarly, the tax rate on pesticide sprayers has gone up from 6% to 18% and electric motors from 7% to 12%. Tractors will be taxed at a rate of either 12% or 28%, up from the current 5%.

Conclusion

An increase in the cost of few agricultural products is anticipated due to the rise in inflation index for lesser period. Though, implementation of GST is going to benefit a lot, the farmers/distributors in the long run as there will a single unified national agriculture market. GST would certify that farmers in India, who contribute the most to GDP, will be able to sell their produce for the best available price. It can be said from the above that GST is expected to have both positive and negative impact on the farm sector. In case of milk, Tea and Fertilizer it is expected to show a negative impact. These are the most popular commodities in India. In case of milk there is no tax to procure milk from farmer, when GST will be implemented it leads to increase the milk prices and this would not be welcomed by consumers. GST will make tax system more transparent as single tax system is available to whole country. Agricultural

products were subjected to diversity of taxation rates; as single rate of goods and service tax would help the farmers and also to traders because they can sell their produce in any part of the country.

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