

## IMPACT OF GST ON AGRICULTURAL SECTOR

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### Abstract

*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. 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.*

**Read Also:** Goods and Services Tax Impact on Common Man

**Keynote:** GST, 'One Nation, One Tax, One Market'

### Introduction

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 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, milk under the GST.

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 per cent 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.

### Current Tax Laws

There are certain food items like rice, sugar, salt, wheat, flour which are exempted from CENVAT. Under the state VAT, cereals and grains are taxed at the rate of 4%. Agricultural products go through a lot of licensing and a number of indirect taxes(VAT, excise duty, service tax) under the current tax laws. State VAT is currently applicable to all the agricultural goods at each state, it passes through prior to final consumption. Although there are certain exemptions available from state VAT for certain unprocessed food products like meat, eggs, fruits, vegetables etc.

### National Agricultural Market (Nam)

A scheme for the promotion of National Agricultural Market (NAM) is introduced by the central government. Involving all the farmer and traders in the regulated markets with a common e-commerce platform for a transparent, impartial trade of agri-commodities can be termed as National Agricultural Market. Due to the different state VAT and APMC (Agricultural produce market committee) law's, implementation of NAM scheme would be challenging.

GST is crucial for creating a path regarding the successful implementation of NAM. Most of the indirect

taxes levied on agricultural products, would be subsumed under GST. GST would provide each trader, the input credit for the tax paid on every value addition. This will create a transparent, hassle-free supply chain which would lead to free movement of agri-commodities across India.

Most of the agricultural commodities are perishable in nature. An improved supply chain mechanism due to GST would reduce the time taken for inter-state transportation. The benefit of reduction in time would be passed on to the farmers/retailers. Some states in India like Maharashtra, Punjab, Gujarat, Haryana earn more than Rs 1000 crores from charging CST/OCTROI/Purchase Tax. GST would subsume all the above taxes. Hence these states would need to be compensated for the loss of revenue.

### Impact of GST on Agricultural Sector

GST is essential to improve the transparency, reliability, timeline of supply chain mechanism. A better supply chain mechanism would ensure a reduction in wastage and cost for the farmers/retailers. GST would also help in reducing the cost of heavy machinery required for producing agricultural commodities. Under the model GST law, dairy farming, poultry farming, and stock breeding are kept out of the definition of agriculture. Therefore these will be taxable under the GST. The new tax regime provides transparency and certainty in the tax system. The main aim of implementing Goods and Services Tax (GST) is 'One Nation, One Tax, One Market'. Globally, It is simple, efficient and will help to improve the economic growth of the country by eliminating a dozen of central and state levies like excise, service, and VAT.

### 18% GST on pesticides will increase farmer's burden

Farmers are not upbeat despite a heavy monsoon period expected which will enhance their harvest, as the proposed implementation of 18% Goods and Services Tax (GST) on pesticides will add to their existing plight. Crop protection products are an integral part of the green revolution and play a crucial role in increasing agricultural productivity. Over the years, the Indian crop protection industry has made significant progress in terms of enhanced production capacity and integration of imported and indigenised technology to meet the overall requirement of crop protection products in India. As cultivable land shrinks, India will need modern agriculture sector to ensure food security. To meet the food grain requirements of the nation, agricultural productivity and its growth needs to be further improved. In combination with Integrated Pest Management and Plasticulture techniques,

agrochemicals play a critical role by providing pre and post harvest protection to crops and agricultural output.

As the farm sector will remain largely exempt from GST, any input taxes suffered on inputs used in the farm sector such as seeds, fertilisers, pesticides, tractors etc, will remain blocked and contribute to increase in prices of farm output. Farm output prices are controlled by market forces and the farmer has little control. As the input price rises and output price remains stagnant, the farmer will have no option but to absorb the cost, thus increasing his burden. Indian farmer is already reeling under tremendous pressure from many ends and the increased burden of taxes will create a crater in his income. If somehow, the output prices increase, the nation will suffer as the food prices will go up, thus creating trouble for the common man. The way out will be that GST rate for crop protection products is reduced from 18% to the lowest slab possible. This will ensure parity across all agricultural inputs and reduce encumbrance on farmers.

### Impact of GST on Agriculture Sector, GST Rates on Agriculture Sector

#### GST Rates on agricultural sector

Goods	Old Rate	GST	Diff (%)
<b>Cheaper</b>			
Seed, Organic compost without brand	0	0	0
Head pump and its parts	12.5	5	-7.5
Tractor	12.5	12	-5
chemical fertilizer	12	5	-7
<b>Expensive</b>			
Tractor Tire & Rim	12.5	18	+5.5
Other tractor parts	12.5	18	+5.5
Harvester, Earth, Grader, Parts	0	12	+12
Insecticide	5.5	18	+11.5

### Merits of GST in Agricultural Sector

1. 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.
2. 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.
3. Agricultural sector has been kept outside from undertaking GST compliances.

4. Will reduce the time taken for inter-state transportation.
5. Service tax will also be exempted in various services related to agricultural produce.

#### **Demerits of GST in Agricultural Sector**

1. Because custom duty will not subsume GST, it will continue to impose on agricultural imports.
2. 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.
3. 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.
4. Fertilizers like Urea, DAT, Potash, will bear a spike tax rate in GST.

#### **Conclusion**

An increase in the cost of few agricultural products is anticipated due to the rise in inflation index for a brief 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 ensure that farmers in India who contribute the most to GDP, will be able to sell their produce for the best available price.

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