

Impact of GST on Agriculture sector

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Abstract

The Goods and Services Act(GST) implemented from July 2017 reorganized the indirect taxation system in India. It is a unified tax which subsumed various indirect taxes on central and provincial level. The execution of GST has affected almost every sector of the Indian economy. Agriculture sector which contributes significantly to the GDP of the country and employs large chunk of population has also seen considerable impact post GST roll out. Although Farmers are not directly taxed under GST but agriculture inputs attract GST which has increased burden on them. Rise in prices of pesticides, micro-nutrient fertilizers, agricultural machinery and equipments has led to increase in the farming costs. The National Agriculture Market(NAM), under which the farmers can sell their produce in any corner of the country without diverse taxes is still in its nascent stage. This study aims to study the impact of GST on agriculture sector. Secondary data referred from various sources like journals, Government reports, newspapers and websites is used for the study.

Keywords- GST, Farmers, Agri-inputs, National Agriculture Market.

Introduction

The Goods and Services Tax (GST) is India's most ambitious and significant indirect tax reform in the country's post-independence history. The aim of the GST is to impose a single national tax across the country on all types of goods and services. The GST has replaced a number of central and state taxes into a unified tax. Implemented from July 2017, its main objectives are to bring uniformity in indirect taxation system and to increase the tax base. The main components of GST are Central GST, State GST, Integrated GST and Union Territory GST.

GST has impacted every sector of Indian economy. According to Ministry of Agriculture, the agriculture sector is a major contributor to India's economy, accounting for 18.3 to the GDP of the economy. The PLFS survey of 2023 shows that agriculture sector provides employment to 48.9% of the nation's population. The same has been affected by GST. The Goods and Services Tax (GST) does not apply to Agriculturalists. However, companies engaged in agricultural activities are required to comply with the Goods and Services Tax. Dairy, Animal Breeding and Poultry are not exempt from GST in India which is a major side income for farmers. Farmers are not obligated to pay Goods and Services Tax (GST) on their agricultural produce or income, however, they have to pay GST on purchases such as Pesticides, Motor Pumps, Tractors, etc., which are subject to GST. This has a significant impact on the farm inputs and leads to increase in cost of farming. According to NABARD'S report on farmers welfare in India, majority of farmers in India possess small and marginal landholdings. After the implementation of GST, the rise in prices of agri inputs has significantly affected the farming income and costs of farmers.

Review of Literature.

Tharani and Ahmed (2017) Impact of Goods and services tax in agricultural sector in India- The implementation of the Goods and Services Tax (GST) may result in a slight increase in input costs for farmers, which may lead to an increase in agricultural prices. However, in the long run, this will be beneficial to farmers and distributors due to the single unified market. The current system makes it difficult to support the Centre due to the various policies implemented by the states. The tax credit system under the GST will result in a increase in inter-state trade.

Roshni et al.(2017) Impact of goods and services tax on Tamil Nadu economy with special reference to Agriculture and allied sector- The introduction of the Goods and Services Tax (GST) would simplify the taxation system by unifying it. This would be beneficial for both farmers and consumers, as it would make the process of transporting agricultural produce easier and more efficient through a unified National Agriculture Market.

Banu et al. (2018) GST and its impact on agricultural sector- The Goods and Services Tax (GST) is the most significant tax reform implemented in the Indian economy. While there is likely to be a decrease in the prices of certain commodities, prices of certain products may also increase. Additionally, the financial resources of certain states may be reduced. The GST would provide farmers, who are a major contributor to the Indian economy, with the opportunity to benefit from the best available prices available in the market. Additionally, the GST will address the transportation issue that is a major obstacle in the agricultural sector.

Mamanshetty (2018) Impact of GST on agricultural sector- The introduction of the Goods and Services Tax is expected to have a mixed effect on the agricultural sector. It could have a negative effect on some of the most popular items like milk, tea, and fertilizers. To make up for this, a single tax will be imposed on the sale of farm produce between states, which will help farmers sell their produce across the country and get the best prices.

Kumar and Kumar (2021) Impact of GST on agricultural sector- Consideration should be given to the taxation of micro-nutrients and fertilizers. Reduce the taxation of farm machinery in order to encourage the mechanisation of marginal and small-scale farms. Increase awareness of agricultural input tax rates among agricultural producers in order to eliminate information asymmetry.

Kumar et al. (2022) GST impact on Agricultural and Allied Sectors- The introduction of the Goods and Services Tax (GST) has been a successful development in the Indian economy. As agriculture is a major contributor to GDP, the government has placed a strong emphasis on the taxation of agricultural products, which has led to a decrease in the prices of agricultural commodities. The introduction of a national agricultural market will provide farmers with more efficient prices for their produce. However, the taxation of agricultural machinery has been increased, which has placed a strain on farmers.

Objectives of the Study

- To study the impact of GST on Agriculture sector
- To provide suggestions on the basis of study.

Research Methodology

Secondary data is used for this study. Data is referred from various journals, articles and newspapers. Further reports of various organizations such as Ministry of Agriculture, NABARD are also referred for this study.

Positive and Negative impact of GST on Agriculture sector.

Positive Impact-

- The Goods and Services Tax (GST) is going to make it easier for farmers to sell their products all over the country, so they can get the best prices for their products. Before, selling your produce from one state to another caused a lot of taxes for the state governments. But now, with GST, this problem will be solved with a single tax across the country.
- The implementation of the Goods and Services Tax (GST) would lead to a more efficient market chain and eliminate the difficulties associated with the transportation of agricultural products between different states.
- According to experts, in the long term, the implementation of the Goods and Services Tax (GST) would result in a decrease in the cost of farm machinery, which would in turn benefit the farmers.

Negative Impact-

- Pesticides and other micro-nutrients are taxed heavily under the GST system, which means farmers have to pay more for their inputs.
- Tractors, farm machinery, and motor pumps are now taxed more than they used to be. This is a huge problem for farmers because the cost of these machines has increased.
- Warehouse construction is now taxed at 18 percent, which means it's more expensive. This means farmers have to pay more to store their food grains in warehouses.
- In the past, food products such as meat, dairy products, fruits, and vegetables were not subject to taxation. However, under the Goods and Services Tax (GST) regime, these items are now subject to taxation, thus increasing the financial burden on the agricultural sector.

Impact of GST implementation on various constituents of Agriculture Sector

- Chemical fertilizers which were taxed at 5-7 percent in pre GST regime are now taxed at 5%. Hence the cost of the same has been reduced under GST.
- Micronutrient Fertilizers which attracted 5% tax rate before GST are now taxed at 12% which has led to increase in their costs for farmers.
- Pesticides which were taxed at 12% previously, now attract 18% tax rates which has significant impact on farm costs.
- Seeds which were exempt from taxation in previous tax regime doesn't attract GST in present system too.
- Electric pumps and oil engines which were taxed at 5% previously are now taxed at 12% under GST thereby increasing their prices.
- Tractors and power tillers which attracted 5% tax in pre GST regime now are subject to 12% taxation which has led to increase in the prices of same for farmers.

- Harvestors and Threshing equipments which were taxed at 5%-10% in various states now attract tax of 12% which has led to increase in cost of harvesting.
- Dairy farming which is a side income for most of the farmers has become expensive due to GST. In the previous system, dairy equipments was taxed at 5% as compared to whopping 18% in the GST regime. This has led to more financial burden on farmers. The same effect has been observed on poultry farming.
- The cost of Warehouse construction has increased significantly due to 18% taxation on it under GST. This has made storing of grains in warehouses more expensive for farmers.
- The National Agriculture Market (NAM) is implemented by the Government to facilitate inter-state sale of farm produces so that the farmers can get best possible prices in any part of the country without diverse taxes. But the lack of awareness among farmers and nexus of local traders is defeating its purpose.

Comparison of rates of Farm inputs Pre and Post GST

Table 1.1

ITEM	PRE GST RATE%	POST GST RATE% (CBIC)
Organic Manure	0	0
Seeds	0	0
Motor Pumps and Oil engines	5	12
Harvesting equipments	5-10	12
Chemical Fertilizers	5-7	5
Pesticides	12	18
Tractors and Power tillers	5	12
Micro-nutrient Fertilizers	5	12
Dairy equipments	5	18

The above table 1.1 shows that rates of majority of farm inputs have soared up after GST implementation.

Suggestions

- GST rates for pesticides, irrigation equipment, agricultural tools should be reconsidered as they form substantial portion of farming costs in agriculture.
- GST council should reconsider taxes on dairy equipments as dairy farming is an important source of income for farmers.
- The Government should promote the sale of agricultural products through the Electronic National Agriculture Market (E-NAM) by removing its bottlenecks so that farmers can get the best prices for their produce from anywhere in the country.

Conclusion

Agriculture is the backbone of India's economy as it sustains the livelihood and employment of large segments of the country's population. According to Ministry of Agriculture, the share

of Agriculture in GDP has decreased from 47.6 in 1960-61 to 18.3 in 2022-23. But it still makes a significant contribution in Indian economy. The Goods and Services Tax (GST) implemented in 2017 has led to escalation in prices of majority of farm inputs. The increase in agri input prices and less utilisation of the National Agricultural Market have rendered farming a challenging profession. The need of the hour is to reduce GST rates for agri inputs and to promote the National Agriculture market for the betterment of the Agriculture sector. As agriculture sector in India constitute majority of marginal and small farmers, it is very important that they earn considerably in proportion to their farming costs.

Limitations of the study

- This study is based on secondary sources of data only.

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