

A Study on Impact of GST on Agriculture sector

Rohit Patel -Research scholar,Department of commerce,SVVV,Indore

Dr.Jaikishan Sahu-Assistant Professor commerce,SVVV,Indore

Abstract

Introduced in July 2017, the Goods and Services Tax (GST) represents one of the most significant indirect tax reforms in India's history. By replacing multiple indirect taxes at both the central and state levels with a unified tax, GST has had widespread implications across all sectors, including agriculture. Although agricultural produce and farmers' incomes are largely exempt from direct GST liability, the imposition of GST on agricultural inputs such as pesticides, micronutrient fertilizers, and farm machinery has increased production costs for farmers. Additionally, while the National Agriculture Market (NAM) initiative seeks to enable farmers to sell their produce nationwide under a single tax framework, it remains underutilized due to limited awareness and structural challenges. This paper analyses the impact of GST on India's agricultural sector using secondary data drawn from journals, official reports, newspapers, and government websites.

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

1.Introduction

The Goods and Services Tax (GST) is one of the most ambitious indirect tax reforms undertaken in post-independence India. Its primary goal is to streamline the taxation system by introducing a single tax applicable to the supply of all goods and services nationwide .GST, which was implemented in July 2017, replaced a number of central and state taxes with the goals of increasing the tax base and harmonizing the indirect taxation system. GST consists of four components namely Central GST (CGST), State GST (SGST), Integrated GST (IGST), and Union Territory GST (UTGST).

The agriculture industry continues to be a mainstay of the Indian economy, accounting for around 18.3% of the GDP and providing jobs for about half (48.9%) of the country's workforce, according to the Ministry of Agriculture (PLFS 2023)..While agricultural produce is exempt from direct GST, various related activities including dairy, poultry, and animal husbandry are taxable. Although farmers do not pay GST on the sale of their crops, they bear the cost of GST on essential inputs like pesticides, tractors, motor pumps, and other equipment. According to NABARD, this burden disproportionately affects small and marginal farmers, who make up the majority of India's farming community.

2. Review of Literature.

Tharani and Ahmed (2017) noted that GST may slightly increase farm input costs but could benefit farmers in the long run by creating a single unified market and promoting inter-state trade.

Roshni et al.(2017) in their study on Impact of GST on Tamil Nadu's economy concluded that 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) emphasized that while GST could lower prices for some commodities, it might increase prices for others. They argue that GST could help farmers secure better prices and resolve long-standing transportation challenges.

Mamanshetty (2018) described GST's impact on agriculture as mixed, pointing out higher costs for staples such as milk, tea, and fertilizers but recognizing that a single tax structure could help farmers sell their produce nationwide more profitably.

Kumar and Kumar (2021) recommended that tax rates on micronutrients and fertilizers should be reconsidered, and tax relief on farm machinery could promote mechanization, especially for small and marginal farmers.

Kumar et al. (2022) concluded that while GST has modernized India's tax system, the taxation of agricultural machinery has increased costs for farmers, although the establishment of a national agricultural market has the potential to improve price realization.

2.1 Objectives of the Study

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

3. 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.

4. Positive and Negative impact of GST on Agriculture sector.

Positive Impact-

- GST has streamlined inter-state sales, enabling farmers to access broader markets without facing multiple state-level levies.
- 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.

5.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.

6. 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.

7. 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.

8. Conclusion

Agriculture continues to be the backbone of India's rural economy, despite its contribution to GDP declining from 47.6% in 1960–61 to 18.3% in 2022–23. The introduction of GST has modernized India's indirect taxation system but has also resulted in higher costs for many farm inputs. Moreover, limited adoption of the National Agriculture Market has restricted the benefits of a unified tax system for farmers. There is an urgent need to rationalize GST rates on critical agricultural inputs and strengthen the E-NAM platform to ensure that small and marginal farmers who form the bulk of India's agricultural workforce can earn sustainable incomes in line with their production costs.

References

1. Banu, R. V., Yasin, M. M., & Sulthana, M. I.(2018).GST AND ITS IMPACT ON AGRICULTURE. *International Journal of Multidisciplinary Researches*,4(11),27-31.
2. Kumar, M., & Kumar, K.(2021).Impact of Good and Service Tax (GST) on Agriculture Sector.*Just Agriculture*,1(12),1-6.
3. Kumar, R., Malhotra, R. K., & Chakma, G.(2022).GST IMPACT ON AGRICULTURE AND ITS ALLIED SECTORS.*Rabindra Bharati Journal of Philosophy*,13(13),127-131.
4. Mamanshetty, S. V.(2018).IMPACT OF GST ON AGRICULTURAL SECTOR. *IJRAR-International Journal of Research and Analytical Reviews (IJRAR)*, 5(3), 221-225.
5. Roshni, S., Nayak, S. K., Behera, L., & Mohapatra, U. (2017). Impact of Goods and Services Tax (GST) on Tamil Nadu Economy with Special Reference to Agriculture and Allied Sectors. *International Journal of Agriculture Innovations and Research*, 6(3),443-446.
6. Tharani, S., & Ahmed, S. (2017). Impact of Goods and Service tax in Agricultural Sector in India. *Int. J. Tech. Res. Manage*, 4(9), 1-6.

Websites

1. Gst-goods-services-rates.Retrieved from <https://cbic-gst.gov.in>
2. Impact of gst on agricultural sector.Retrieved from <https://cleartax.in>
3. Impact of gst on agriculture-sector. Retrieved from <https://www.kanakkupillai.com>
4. Share of agriculture in employment rose manufacturing declined in 2021-22 plfs. Retrieved from <https://thewire.in>.
5. NABARD(2023).Farmers welfare in india a state wise analysis.Retrieved from <https://www.nabard.org>.