

**Effect of GST on Agriculture-Input Market in India  
(A Survey based Hypothetical Study)****Dr. L. Balamurugan**

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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 per cent 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. 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. This paper is helpful in bringing out the light on Impact of GST on Agriculture Sector. This change in tax regime will consequently result in changes in price structure of inputs, manufacturer and dealer margin, imports and exports and ultimately farmers 'income and country's economy. Overall, it seems, from the inputs side, that the cost of cultivation for farmers may increased marginally, which in turn may put mild pressure on agri-prices. But the story is not complete unless we see the taxation structure on agri - output prices.*

**Key Words :** GST, Agriculture-Input, GDP, Taxation

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**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.



Presently, the tax structure of India is very complex. Looking to the global developments and tax structure of developed countries, GST is the need of the hour and will be the biggest reform in Indian taxation since 1947. Clause 366(12A) of the Constitution Bill defines GST as “goods and services tax” means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines “Services” means anything other than Goods, thus it can be said that GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.

The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview. Amidst economic crisis across the globe, India has posed as a beacon of hope with ambitious growth targets, supported by slew of strategic missions like ‘Make in India’, ‘Digital India’, etc. Goods and Services Tax (GST) is expected to provide the much needed stimulant for economic growth in India by transforming the existing basis of indirect taxation towards free flow of goods and services within the economy and also eliminating the cascading effect of tax on tax. In view of the important role that India is expected to play in the world economy in the years tom come, the expectation of GST being introduced is high not only within the country, but also in neighboring countries and in developed economies of the world. The implementation of GST will affect the working of every sector of the Indian economy, including the most vital and vulnerable component of the Indian Economy, i.e. Agriculture Sector, which contributes approximately16% to the national GDP. Agriculture in all fields always had the soft corner because of which exemptions from taxes as relief has always been provided to this industry and indirect tax is no exception with GST

following the same all basic agriculture goods (not processed) which are not chargeable under current VAT Laws would not be charged to tax in GST. Service tax also exempts several services in relation to agricultural produce. However, there is an exemption in the indirect tax in the agricultural sector but, current 4% VAT will increase to 8% on many food items including cereals and grains as the exemption under VAT is limited to unprocessed food. Thus, there is a need to explore the possible implications of the GST on the Indian Agricultural Sector. This study will mainly focus on the agri – inputs segment of the agricultural sector of the economy.

### **Objectives**

The major objectives of the theoretical study are:

- To apprise the opinion of various operators in the Agri – input market on the impact of the implementation of GST.
- To have an view on the ideal GST. Rates for various segments of the. Agri – inputs market, as the GSTR ate list is already disclosed.
- To identify with the implication of GST on the trade of agri – inputs.

### **Research methodology**

Qualitative evaluation shall be utilized for this research project leveraging subjective methods such as online surveys to collect substantive and relevant data. These surveys were conducted with various stakeholders of the companies operating in the Indian Agricultural Market along with high rank government officials, dignitaries, Researchers and etc. Such a qualitative approach is valuable here due to the varying experiences and viewpoints of the individuals regarding the impact of GST on the agricultural market. Upon collecting the qualitative data derived from the said surveys, careful analysis is done to derive a concrete results relating to various aspects of the Indian Agri – input market. Total of 2100 individuals were approached for the study, of which 300 responses were considered for this study. GST will increase the transparency at each level of supply chain of every product/service/item and will make the tax regime simpler. According to experts, single window taxation shall smoothen and ease the production process and growth as well as accounted trading and transactions resulting in positive economic growth. Also, the overall rise in the tax revenue of the government that shall lead to more money in the hands of the government due to which, government expenditure shall go up leading to overall economic growth. Moreover, black economy will have to become compliant after the implementation of GST.

However, respondents who think that it may have negative effect reasoned their statement by quoting that the cost of change is very high, enforcement in the interim period may lead to further slowdown in growth. At least one year's grace in implementation will be needed for existing implementation to change once the deadline sets in. Long term impacts may be the same as implementation of VAT when it was brought to the Indian economy. However, inflationary pressure may bring it to the negative. Influence of GST on Indian agricultural market As per the Model GST law "agriculture" with all its grammatical variations and cognate expressions, includes floriculture, horticulture, sericulture, the raising of crops, grass or garden produce and also grazing, but does not include dairy farming, poultry farming, stock breeding, the mere cutting of wood or grass, gathering of fruit, raising of man-made forest or rearing of seedlings or plants. Therefore, these will be taxable under the GST. According to the experts, 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. According to the survey conducted, approximately 60% of the respondents think that GST will have a positive impact on the Indian agricultural sector, however, 27% of the total respondents think the other way round.

### **Review of Literature**

Vinita Kanwal' (2014) in his article "Reverse Charge (Provisions) under service Tax" stated that the whole of the Service Tax is liable to be paid by the recipient of the service. The reverse charge payments have to be made by way of cash payments (and not by utilizing the Convert Credit) if input credit has to be taken in respect of the same for use in payment of tax of output services or excise duty for clearing excisable goods.

Chadha' (2014) states that the list of services, listed under Section 66D of the Finance Act, 1994, as amended by the Finance Act, 2012, Clause (k) contains "transmission or distribution of electricity by an electricity transmission or distribution utility". On the face of it, in terms of Clause (k), only electricity transmission or distribution utilities are exempted, from the levy of Service Tax. If charges are collected by a developer or a housing society for distribution of electricity within a residential complex then such services is covered under this entry. The developer or the housing society would be covered under this entry only if it is

entrusted with such function by the Central or a State Government or if it is, for such distribution, a distribution licensee licensed under the Electricity Act, 2003

As per Chitra's (2014) article "Export of Service - An analysis of Service Tax Review" a service is considered to have been exported provided 45 the physical performance and use itself is outside the country and payment is received in convertible foreign exchange. The provision of any service provided or agreed to be provided shall be treated as export of service

Gupta, N. (2013) points out that the Clause (b) of section 66E of Finance Act, 1994 define 'declared service' in construction activity. This covers residential, commercial or industrial construction. The Clause (b) 46 section 66E (inserted with effect from 1-7-2012) states that if even one per cent consideration is received prior to obtaining completion certificate, service tax is payable on entire value of consideration.

Shaik, S., (2013) points out that the activity of construction of a complex, building, civil structure or a part thereof has been included in the list of "declared services", as defined at Section 66E(b) of the Finance Act, 1994 (as amended). The expression "construction" includes additions, alterations, replacements or remodeling of any existing civil structure. However, this service does not include such construction activity, where entire consideration is received after issuance of completion 47 certificate by competent authority. In addition to provide construction service, sometime, builders/developers provide other facilities and charge separately for them.

Finance Act, 2010. Accordingly, "Preferential location" was defined as any location having extra advantage which attracts extra payment over and above the basic sale price. Taxable service means any service provided or to be provided to a buyer, by a builder of a residential or commercial complex, for providing preferential location or development of such complex but does not include "Management, maintenance or repair" service, "Commercial or industrial construction" service, "Construction of complex" service and services in relation to parking place. Thus, taxable service towards preferential location includes charges towards development of complex, but does not include charges towards Construction service, management, maintenance or repair service and services in relation to parking place.

Sivadas Chatter's (2013) article "Discriminative Levy of Service Tax" deals with the discriminative levy of service tax on practicing Chartered Accountants and the practicing advocates. All services provided 48 by a Chartered Accountant are subject to levy of service tax. There are certain secular services tendered to advocates, which are not subject to any levy of

service tax. There lies the professional discrimination and discriminatory treatment. The author seeks to discuss this (unjustified) discrimination in a democracy.

**Implication of GST on the Agri – Inputs Market in India: ICFA Survey Report**

<b>GST</b> (Goods & Services tax)					
COSTLIER ▲			CHEAPER ▼		
	Pre-GST	After-GST		Pre-GST	After-GST
Shoes > ₹ 500	14.4%	18%	Fertiliser	12%	5%
Cornflakes	10%	18%	Tractor Parts	28%	18%
Jam	5%	18%	Shoes < ₹ 500	14.4%	5%
Leather Bags	6%	22%	Garments > ₹ 1000	18.5%	12%
Mobile Bills/Salon Visits	15%	18%	Cellphones	13-24%	12%
Credit Card/NEFT	15%	18%	Soap, Hair Oil	24-28%	18%
Telephone Bills	15%	18%	Pressure Cooker	19.5%	12%
Business Air Tickets	9%	12%	Economy Air Tickets	6%	5%
Small Cars < 1500cc	25-27%	28+1%	Large Cars > 1500cc	41.5-44.5%	28+15%
Watch	20%	28%	Plastic Kitchenware	17.5-27%	18%
Life Insurance	15%	18%	Biscuits	12-18%	18%
Hotels > ₹ 7500	18-25%	28%			
DSLR Camera	25%	28%			
Shampoo	26%	28%			
Perfume	26%	28%			
TVs & ACs	26%	28%			
UNCHANGED ◀▶					
	Pre-GST	After-GST		Pre-GST	After-GST
Garments < ₹ 1000		5-6%			5%
Movie Tickets > ₹ 1000		25-30%			28%
Cold		2-5%			3%

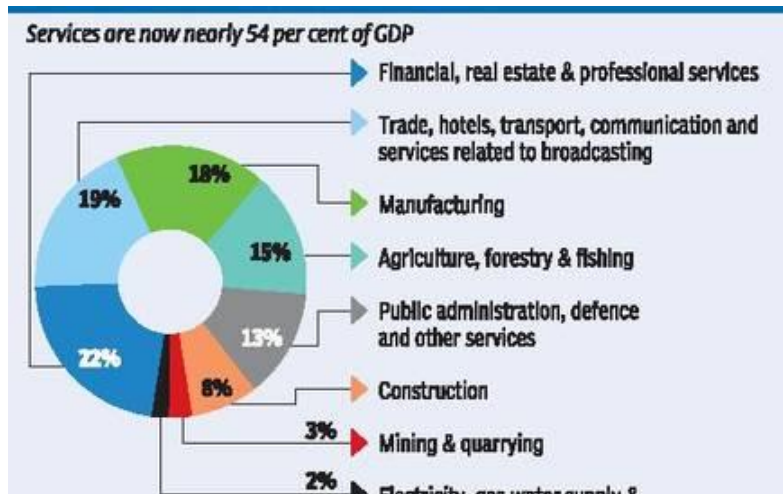
Extensive coverage activity under tax fold is expected to enable reduction in unit cost of goods and services, which will result in positive impact on agricultural sector. Moreover, farmers are likely to get better prices of their crops due to single tax rate across the country, which will enable them to get market access with wide areas. However, respondents with the view of negative impact on the agricultural sector of GST articulated their statement by stating that it will increase the input cost for agricultural products as well as agricultural machinery price is expected to rise by 4%-6% as according to the current tax system, only 6% VAT

was applicable. This will be a significant negative for farmers as cost of their input either in terms of investment in machines or in terms of hiring the machine will rise significantly, thereby making their costs higher than current price. Wider coverage activity under tax fold is expected to enable reduction in unit cost of goods and services, which will result in positive impact on agricultural sector. Moreover, farmers are likely to get better prices of their crops due to single tax rate across the country, which will enable them to get market access with wide areas. However, respondents with the view of negative impact on the agricultural sector of GST articulated their statement by stating that it will increase the input cost for agricultural products as well as agricultural machinery price is expected to rise by 4%-6% as according to the current tax system, only 6% VAT was applicable. This will be a significant negative for farmers as cost of their input either in terms of investment in machines or in terms of hiring the machine will rise significantly, thereby making their costs higher than current price.

**Pressure of GST on Indian agricultural market**

As stated by the Model GST law "agriculture" with all its grammatical variations and cognate expressions, includes floriculture, horticulture, sericulture, the raising of crops, grass or

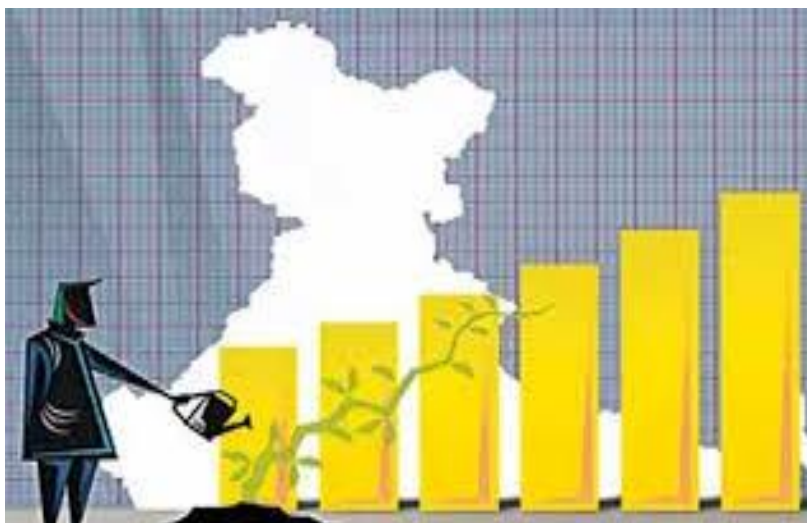
garden produce and also grazing, but does not include dairy farming, poultry farming, stock breeding, the mere cutting of wood or grass, gathering of fruit, raising of man-made forest or rearing of seedlings or plants. Therefore, these will be taxable under the GST.



According to the experts, 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. According to the survey conducted, approximately 60% of the respondents think that GST will have a positive impact on the Indian agricultural sector, however, 27% of the total respondents think the other way round. However, 25% of the respondents, who had a view point that the cost of manufacturing would decline reasoned their statement by pointing out that raw material required for manufacturing is likely to be available at less cost along with the decline in the cost of the agricultural equipments.

**Effect of GST on the manufacturing cost of agri – inputs**

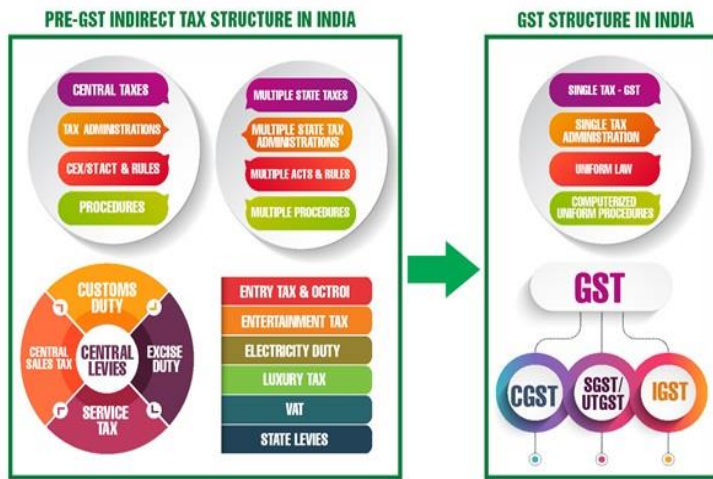


Manufacturing cost is the major component for any industry as if manufacturing cost rises, the price of the end product rises. This is because, manufacturers pass on the additional cost to the consumers. However, with the implication of GST, agricultural sector is expected to benefit, while the

manufacturing cost of the agri-inputs are likely to rise. The following exhibit depicts the responses of the respondents for effect of GST on the manufacturing cost of agri – inputs. Major proportion of respondents opined that the manufacturing cost of the agri – inputs will increase as agricultural machinery will become costlier thus, resulting in the spare parts being costly. Also, current plan of enhancing tax in the form of GST be it chemical fertilizers, bio fertilizers from Zero to 12 %, or 18 % Effect of GST on the retail price of agri – inputs The retail price of the agri – inputs are directly affected by the manufacturing cost o the products. Thus, if manufacturing cost increases, the retail price of the product also increases and vice – versa.

According to experts' opinion, retail price will increase for states where the products were already exempted (example Irrigation Systems in Rajasthan/Haryana/Gujarat), on the other hand other states were charging VAT. Thus, 45% of the respondents, who think that retail price, would increase in the future, after the implementation of GST, articulated that the rise in the retail price would be 3%-5% as inputs or associated activities that are taxable or will come under tax, in effect agri – input products will incur some amount of tax which will be passed on to the consumer. Also, some had a view that retail price may go up for shorter period of time as earlier most of agri – inputs were out of tax bracket, while under this new tax regime few inputs will be taxed. Respondents with a view point that the retail price of the agri – input products would decline justified their statement by stating that one time taxation on the manufactured/value added inputs and direct exemption of many of the inputs related to agriculture production shall lower the cost. Moreover, transparent tax system and better tax compliance will lead reduction in unit manufacturing cost; in turn will enable the retailer to sell agri – inputs at low price. the respondents think that the profitability of farmers will rise after the implementation of GST on July 1,2017. This may be attributable to many services related to agriculture being exempted along with timely availability of agri-inputs, which may ease the production front and removal of movement restriction of agri-outputs. Moreover, access to single market in whole nation may make better earning situation for farmers. However, the 25% respondents, according to whom, the level of profitability would decline for farmers, reasoned their view point by stating that with increase in cost of inputs, farmers' cost of producing farm produce will go up against price they get in market which in a way upset cost -benefit ratio for them.

## IMPACT OF GST



### Effect of implementation for agri – inputs on the agricultural growth

The implementation of GST will give more relief to agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better

tax compliance may also lead to lowering of tax burden on an average dealer in agriculture. More than 40% of the respondents believed that implementation of the GST for agri – inputs will rise the agricultural sector growth rate due to various reasons such as low cost of inputs, production at lower costs and free mobility of agricultural produce across states as per need and demand.

### Effect of GST implementation on the farmer’s profitability

Farmers’ profitability largely depends upon tax structure for the inputs utilized by them. This is because it determines the cost of production for the farmers. Lower the cost of production, higher are the possibilities of him getting larger profits. In case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services. With reference to the Agri – inputs, major proportion of experts opine that there will be no change in the imports as imports of product is largely associated with availability and quality of products, which do not have impact due to GST. However, 25% of respondents feel that there will be a decline in the imports of the Agri – inputs as cost of manufacturing may decline due to reduced tax struck turn on raw materials. None the less, approximately 20% of the respondents think that there will be an increase in the imports of the Agri – inputs as import duty in total will be GST adjustable.

**Conclusion**

Agricultural sector is based on perishable items. And as foreseen in the Goods and Services Tax regime, if the supply chain evolves into something better, improving quick movement of goods, it will allow less food to be wasted. The profit in turn will go to the farmers and the retailers, too. This will happen because interstate transportation of goods, here perishable food, will be easier. However, as the farm sector will remain largely exempt from GST, any input taxes suffered on inputs used in the farm sector such as seeds, fertilizers, pesticides, tractors etc, will remain blocked and contribute to an 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 government needs to be very cautious in implementing the new tax system and should have extra concern towards the farmers. Even a slightest burden on farmers will result in manifold distress and misery, they being the most vulnerable community of the country. However, a smooth GST regime can break inter-state barriers on movement and facilitate direct linkage between processors and farmers. This can transform the operations of the sector too if other necessary reforms to free up agricultural markets are undertaken.

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. 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 be 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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