

Impact of Good and Service Tax (GST) on Agriculture Sector

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Introduction

The implementation of GST will have its impact on every sector, and quite large at the Indian Agricultural Sector as it accounts for approximately 16% of the national GDP and employs around 52 % of the population. So it is important to discuss on the impact of GST on the Agriculture sector. Previous system of the taxation Central Government levies tax on manufacture (Central Excise duty), provision of services (Service Tax), interstate sale of goods (Tax levied by the Centre but collected and appropriated by the States) and the State Governments levy tax on retail sales (VAT), entry of goods in the State (Entry Tax), Luxury Tax, Purchase Tax, etc. It is clearly visible that there are multiplicities of taxes which are being levied on the same supply chain. GST is an idea on which all the indirect taxes (by central government, state government and custom duties) will be subsumed into a common single GST. The introduction of GST is an important reform which would lead India into the next rapid phase of economic growth (Kelkar, 2016). The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017. Main aim of GST is “one nation, one tax”. Introduction of GST would also make Indian products competitive in the domestic and international markets. Indian government will also apply an integrated GST that means only Centre can collect GST in case of inter-state trade and commerce and further this tax will be divided between centre and state based on recommendation of GST council advisory body. Goods & Services Tax Council is a constitutional body for making recommendations to the Union and State Government on issues related to Goods and Service Tax. France was the first country to introduce GST. Only Canada has a dual GST model. India’s GST modal on the basis of Canadian dual modal of GST. The GST are divided into two parts one is central government taxes (CGST) and other one State government taxes (SGST). There are following

Central Govt. Taxes (CGST)	State Govt. Taxes (SGST)
Service Tax	VAT/ Sales Tax
Central Excise Duty	Entertainment Tax
Excise Duty under Medicinal and Toiletries preparation Act	Luxury Tax
Additional Customs Duty (Countervailing Duty)	Taxes on Lotteries
Surcharge	Betting and Gambling
Cess	Entry Tax

All the commodities are not included in the current taxes system. Certain items are exempted from GST like (1) Alcoholic liquor (2) Aviation turbine fuel/high speed diesel (3) Petrol (4) Stamp duty etc.

Trends in monthly gross GST revenues in India

After implication of GST in collection of revenue by indirect taxes have lot of fluctuations in month wise. But we can seen in below graph total revenue was increased over the year. In GST system lowest revenue collect from December, 2017 and highest revenue generated from April, 2018 but less than April, 2019. So GST system of indirect taxes come very transparency in taxation system and government collect more revenue than previous system.

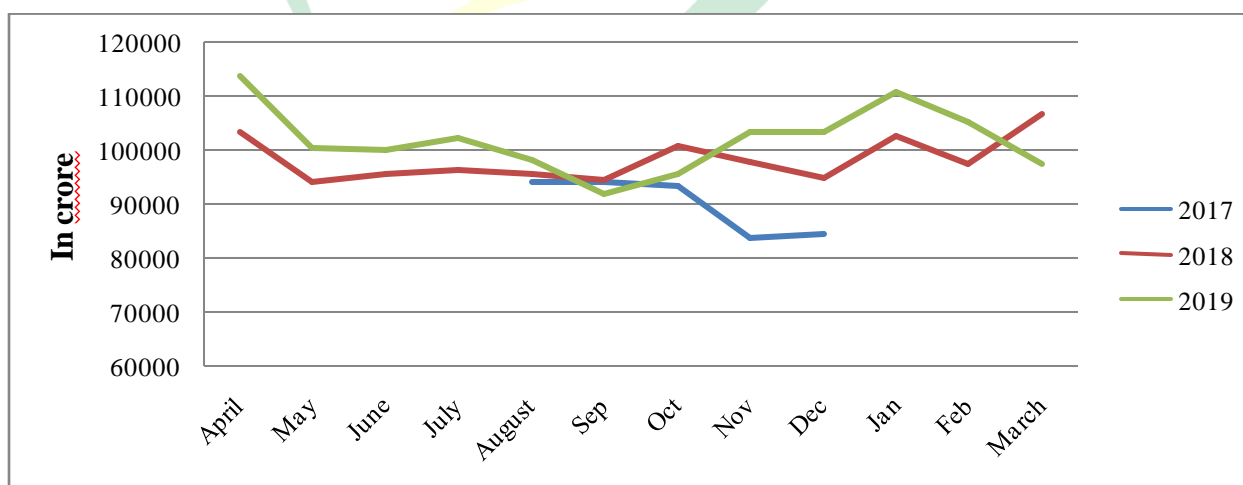


Fig: - Show trends in monthly gross GST revenues in India

After implementation of GST influence the entire sector in India but agricultural sector more influence than other because about 52 percent population employed in this sector. The average cost of fertilizers, irrigation pumps and tractors has been declined by 2, 5.5 and 5.5% respectively, while the average cost of insecticide has inflated by 5.5% (Singh N P, 2018). Some agricultural inputs price decline due to GST like Chemical, Irrigation equipment, Tractor & power tiller, Solar panel/module etc. but most of the inputs price rises due to GST like plant protection chemicals, plant growth regulators, fertilizer, plant protection equipment and harvesting and threshing equipment etc..

Table Shows Tax rate on important agricultural inputs

Agricultural inputs		Pre-GST rates (%)					After GST
		Uttar Pradesh	Maharashtra	Madhya Pradesh	Punjab	Central	Central (%)
Seeds	Unbranded	Exempted	Exempted	0	0	Exempted	Exempted
	Branded	Not defined	Not defined	-	-	Not defined	Not defined
Organic manure	Unbranded	Exempted	Exempted	0	0	NIL	0
	Branded	Not defined	Not defined	-	-	Not defined	5
Chemical	NPK	Exempted	6	5	0	12.5	5
Fertilizers	Bio-fertilizers	4	6	0	0	Not defined	Not defined
	Micronutrient	4	6	5	0	Not defined	12
Plant protection		4	6	5	0	12.5	18

chemicals							
Plant growth regulators	4	6	5	0	12.5	18	

Table Shows tax rate on important equipments and machines

Equipments and machinery		Pre-GST rates (%)					After GST
		UP	Maharashtra	MP	Punjab	Central	Central (%)
Irrigation (Electrical pumps and oil engines)		4	6	5	4	12.5	12
Land preparation	Manually operated	Exempted	6	0	0	NIL	12
	Power-driven	Exempted	6	5.5	5	NIL	12
Plant protection equipment		Exempted	-	0	0	-	12
Harvesting and threshing equipment		4	6	0	0	NIL	12
Tractor & power tiller		4	6	5	4	12.5	12
Solar panel/module		-	-	-	-	12.5	5

Impact on cost of cultivation

After the GST implication, most of the agricultural input becomes chiefly because decrease tax by GST system on the variable inputs. Singh N P, et al (2018) studies in “GST in India: reflections from food and agriculture” and concluded that cost of cultivation of the entire crops are decreasing. The highest cost decreasing of soybean crop followed by sunflower, sugarcane and mustard. The lowest impact on pulses crops which decreasing

lowest cost of Arhar has followed by gram. The profit of farmers is increasing by implementation of GST system in India.

Table: Shows effect of goods and services tax on operational cost of crops (Rs /ha)

Crop groups	Major crops	Operational cost		
		Without GST	With GST	% Change
Cereals	Paddy	40124	40055	-0.170
	Wheat	28084	28012	-0.254
	Maize	35400	35310	-0.254
Pulses	Arhar	24569	24113	-0.007
	Moong	16612	16591	-0.129
	Gram	20113	20096	-0.083
Oilseeds	Soybean	24943	24843	-0.404
	Sesame	18971	18951	-0.103
	Groundnut	42815	42734	-0.190
	Sunflower	21625	21558	-0.308
	Rape and Mustard	23755	23694	-0.258
Cash crops	Jute	45682	45638	-0.096
	Cotton	50953	50899	-0.107
	Sugarcane	90553	90320	-0.258

Conclusion

It will boost the economic growth. International and domestic trade would be encouraged. Overall tax burden will be less on the consumers as far as agricultural sector is concerned. After GST the cost of cultivation of crops like paddy, wheat maize, gram, soybean, groundnut, sunflower, rapeseed and mustard, cotton and sugarcane would have been less. The average cost of fertilizers, irrigation pumps and tractors has been declined by 2, 5.5 and 5.5% respectively, while the average cost of insecticide has inflated by 5.5% (Singh N P, 2018). These changes in tax rates are likely to influence prices of inputs and their usage; adoption of technologies and prices of agricultural commodities and thereby farm profits. Post-GST, the tax burden on the tractors has declined by 4.5 to 6.5% but harvesting and threshing equipment have been taxed at 12% post GST, hence we expect an increase in their



prices. Plant protection equipments such as sprayers, dusters and sprayers were exempted from tax earlier. However, the GST of 12% on these would increase the fixed cost for the farmers.

Suggestions

The reduces in the taxation on micro-nutrient fertilizers and liquid fertilizers to promote commercial farming in India. Reconsideration of tax rates on important agricultural machineries to promote mechanization of small and marginal farms. Create awareness among the producers about the tax rates on different agricultural inputs to break the information asymmetry.

Reference

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