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**THE GST AND INDIAN ECONOMY**



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## IMPACT OF GST ON AGRICULTURE SECTOR

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### Introduction:

Agricultural sector has been the root of Indian economy and it contributes to around 17.4% to GDP. About 52% 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 center 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.

### Impact of GST on Agriculture 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. Fertilizers an important element of agriculture was previously taxed at 6% (1% Excise + 5% VAT). In the GST regime, the tax on fertilizers has been increased to 12%. The same impact is on Tractors. Wavier on the manufacture of Tractors is removed and GST of 12% has been imposed. This is beneficial as now the manufacturers will be able to claim Input Tax Credit India's milk production in 2015-16 was 160.35 million ton, increased from 146.31mt in 2014-15. Currently, only 2% VAT is charged on milk and certain milk products but under GST the rate of fresh milk is NIL and skimmed milk is kept under 5% bracket and condensed milk is going to be taxed at the rate of 18%. Tea is probably one of the most crucial items in an Indian household. The price of tea might also increase due to the tax rate of 5% under GST rate from the current average VAT rate of 4-5% with Assam and West Bengal with the exception of 0.5 and 1%.

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 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.

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. This definition of agriculture under the Model GST Law is similar to the definition under the Maharashtra Value Added Tax Act (i.e. MVAT Act). However, under the Service Tax law, agriculture has been defined as "agriculture" means the cultivation of plants and rearing of all life-forms of animals, except the rearing of horses, for food, fiber, fuel, raw material or other similar products'. The new definitions of agriculture and agriculturist are provided by GST in section 2(7) and 2(8) respectively.

#### GST Rates on Agriculture Sector

Agriculture			
Goods	Old Rate	GST	Diff (%)
<b>Cheaper</b>			
Seed, Organic compost without brand	0	0	0
Headpump 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 favorable 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.
6. An agriculturist would come under non-taxable person.
7. All basic agriculture goods (not processed) which are not chargeable under current VAT Laws would not be charged to tax in GST.
8. As the exemption under VAT is limited to unprocessed food, 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.

#### 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 equipment's 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.
5. Drip and sprinkler irrigation equipment, which currently attracts a VAT rate of 5%, will be taxed at 18% under GST. Similarly, the tax rate on pesticide sprayers has gone up from 6% to 18% and electric motors from 7% to 12%. Tractors will be taxed at a rate of either 12% or 28%, up from the current 5%.

#### 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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