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IMPACT OF GOODS AND SERVICE TAX IN AGRICULTURAL SECTOR IN INDIA

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Abstract: *Agriculture plays a vital role in India's economy. Over 58 per cent of the rural households depend on agriculture as their principal means of livelihood. Agriculture, along with fisheries and forestry, is one of the largest contributors to the Gross Domestic Product (GDP). As per the 2nd advised estimates by the Central Statistics Office (CSO), the share of agriculture and allied sectors (including agriculture, livestock, forestry and fishery) is expected to be 17.3 per cent of the Gross Value Added (GVA) during 2016-17 at 2011-12 prices. 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 certify that farmers in India, who contribute the most to GDP, will be able to sell their produce for the best available price. Overall, it seems, from the inputs side, that the cost of cultivation for farmers may increase 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.*

Keywords: *GST, Impact, Agricultural Sector, Fertilizers, Tractors, Farmers, National Agricultural Market.*

1. INTRODUCTION

"Imagine what India would've looked like today had Sardar Vallabhai Patel hadn't united all kingdoms of India. Just like that, GST is uniting all markets of India today."

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer.

2. OBJECTIVES

1. To know about the Goods and Service Tax benefits.
2. To study the impact of Goods and Service Tax in the Agricultural Sector in India.
3. To analyse the difference in tax percentage in GST and earlier taxing system in Agricultural Service and Goods.
4. To observe the merits and demerits of the Goods and Service Tax in the Agricultural Sector in India.

3. HISTORY OF GOODS AND SERVICE TAX IN INDIA

The image below represents the Hard Journey of Goods and Service Tax in India. In 2006, first it was announced to introduce GST by 2010. The Bill was passed in 2011 in the Rajya Sabha and 2014 in Lok Sabha and accepted after long years after committee meetings. Finally passed in August 2016 and came into force from 1st July, 2017.

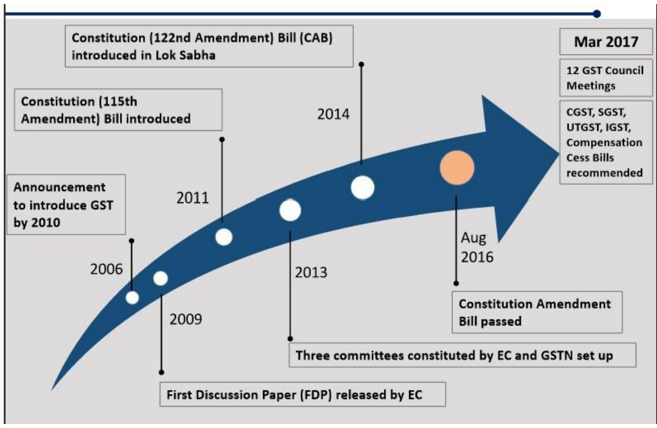

Fig 1: The Journey of GST

4. CONSTITUTION (ONE HUNDRED AND FIRST) AMENDMENT ACT, 2016

To address all these and other issues, the Constitution (122ndAmendment) Bill was introduced in the 16thLok Sabha on 19.12.2014. The Bill provides for a levy of GST on supply of all goods or services except for Alcohol for human consumption. The tax shall be levied as Dual GST separately but concurrently by the Union (central tax - CGST) and the States (including Union Territories with legislatures) (State tax - SGST) / Union territories without legislatures (Union territory tax- UTGST). The Parliament would have exclusive power to levy GST (integrated tax - IGST) on inter-State trade or commerce (including imports) in goods or services. The Central Government will have the power to levy excise duty in addition to the GST on tobacco and tobacco products. The tax on supply of five specified petroleum products namely crude, high speed diesel, petrol, ATF and natural gas would be levied from a later date on the recommendation of GST Council.

A Goods and Services Tax Council (GSTC) shall be constituted comprising the Union Finance Minister, the Minister of State (Revenue) and the State Finance Ministers to recommend on the GST rate, exemption and thresholds, taxes to be subsumed and other features. This mechanism would ensure some degree of harmonization on different aspects of GST between the Centre and the States as well as across States. One half of the total number of members of GSTC would form quorum in meetings of GSTC. Decision in GSTC would be taken by a majority of not less than three-fourth of weighted votes cast. Centre and minimum of 20 States would be required for majority because Centre would have one-third weightage of the total votes cast and all the States taken together would have two-third of weightage of the total votes cast.

The Constitution Amendment Bill was earlier passed by the Lok Sabha in May, 2015. The Bill was referred to the Select of Rajya Sabha on 12.05.2015. The Select Committee had submitted its Report on the Bill on 22.07.2015. The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by Lok Sabha in August, 2016. Further the bill had been ratified by required number of States and received assent of the President on 8thSeptember, 2016 and has since been enacted as Constitution (101st Amendment) Act, 2016w.e.f. 16th September, 2016.

5. BENEFITS OF GST

5.1: Make in India:

a) Will help to create a unified common national market for India, giving a boost to Foreign investment and “Make in India” campaign;
b) Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;
c) Harmonization of laws, procedures and rates of tax;
d) It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
e) Ultimately it will help in poverty eradication by generating more employment and more financial resources;
f) More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports.
g) Improve the overall investment climate in the country which will naturally benefit the development in the states;
h) Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-state sales;
i) Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries . This will create India as a “Manufacturing hub”.

5.2: Ease of Doing Business:

a) Simpler tax regime with fewer exemptions;

b) Reductions in the multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity;
c) Reduction in compliance costs - No multiple record keeping for a variety of taxes - so lesser investment of resources and manpower in maintaining records;
d) Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc;
e) All interaction to be through the common GSTN portal- so less public interface between the taxpayer and the tax administration;
f) Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions;
g) Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system;
h) Timelines to be provided for important activities like obtaining registration, refunds, etc;
i) Electronic matching of input tax credits all-across India thus making the process more transparent and accountable.

5.3: Benefit to Consumers:

a) Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and service supplier;
b) It is expected that a relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme- purchases from such entities will cost less for the consumers;
c) Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

6. IMPACT OF GST ON AGRICULTURAL SECTOR

Agriculture plays a vital role in India’s economy. Over 58 per cent of the rural households depend on agriculture as their principal means of livelihood. Agriculture, along with fisheries and forestry, is one of the largest contributors to the Gross Domestic Product (GDP). As per the 2nd advised estimates by the Central Statistics Office (CSO), the share of agriculture and allied sectors (including agriculture, livestock, forestry and fishery) is expected to be 17.3 per cent of the Gross Value Added (GVA) during 2016-17 at 2011-12 prices.

Sustainable agriculture, in terms of food security, rural employment, and environmentally sustainable technologies such as soil conservation, sustainable natural resource management and biodiversity protection, are essential for holistic rural development. Indian agriculture and allied activities have witnessed a green revolution, a white revolution, a yellow revolution and a blue revolution.

This section provides the information on agriculture produces; machineries, research etc. Detailed information on the government policies, schemes, agriculture loans, market prices, animal husbandry, fisheries, horticulture, loans & credit, sericulture etc. is also available.

In current tax regime, agriculture has enjoyed a various exemptions from indirect tax. Sale of agriculture commodities is exempt from VAT. Concessional rates have been imposed on agricultural accessories and supporting machineries. As the GST is being introduced with the unbiased objective of having a unified tax structure for goods and services, this is likely to facilitate and strengthen the Scheme on National Agricultural Market (NAM) aimed at an integrated system of market of agriculture produce at the national level, allowing free flow of agricultural commodities across states.

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, fibre, 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.

The impact of the new GST regime on agriculture and farmers. One can look at it from three angles: (1) is GST going to be inflation-neutral, given that food has 45% weight in the consumer price index (CPI); (2) is GST going to be revenue-neutral, especially which states may lose revenue and how they will be compensated; and (3) does it give some incentives to link farmers with food processing industry, which may help farmers reduce market risk, augment incomes, and create new jobs in rural areas?

AGRICULTURE			
GOODS	**OLD RATE**	**GST**	**DIFF (%)**
CHEAPER			
Seed, Organic compost without brand	**0**	**0**	**0**
Head pump and its parts	**12.5**	**5**	**-7.5**
Tractor	**12.5**	**12**	**-.5**
Chemical fertilizer	**12**	**5**	**-7**
EXPENSIVE			
Tractor Tire and Ram	**12.5**	**18**	**+5.5**
Other tractor Parts	**12.5**	**18**	**+5.5**
Harvest, Earth, Grader, Parts	**0**	**12**	**+12**
Insecticide	**5.5**	**18**	**+11.5**

Fertilisers, which earlier attract VAT varying between 0% and 8% (in several states), will now under GST regime attract 12% tax. That means the prices of fertilisers are likely to go up by 5-7%, unless the government decides to absorb this by increasing subsidy. Pesticides are put in the 18% slab, up from the 12% excise they attract today and VAT of 4-5% in some states. Several components and accessories of it are put in the 28% slab, while tractors themselves are in the 12% slab, up from zero excise and VAT of 4-5%. It is not very clear yet whether the input credit claims to cover taxes already paid on components and accessories will exceed the final tax rate of 12% on tractors, and therefore there could be a scope for reduction in tractor prices; or the tax on components may be rationalised and the applicable rate brought down from 28% to 12%. There is quite a bit of confusion here.

Most of raw agri-commodities including rice, wheat, milk, fresh fruits and vegetables, etc, are in the zero-tax slab and rightly so as they are consumed by masses. However, it may be interesting to note that a state like Punjab which contributes maximum grains to the central pool, imposes taxes and various cesses to the extent of 12% on wheat and rice. And on top of that, there is the arhatiya commission of 2.5% making the transactions cost of these basic staples in Punjab mandis as high as 14.5%. In a country still ridden with poverty, imposing such high levels of taxation on wheat and rice was nothing short of rent-seeking from the Centre and distorting the markets. Now, with new GST regime, even if commission of 2.5% stays, one hopes that all other taxes and cesses would go away. As a result, the purchase cost of wheat and paddy (rice) from Punjab mandis will go down by 12%. This would be a major gain with several ripple effects. One, the prices of these basic staples in open market should come down by say 5-7%, as most grain-surplus states impose at least that much tax. This was a major distortion in mandis driving the private sector away from Punjab. Now, with zero taxes, the private sector may come back to buy wheat and rice from surplus states, giving a fillip to grain-milling.

6.1: Services provided by a goods transport agency for transporting agricultural produce attracts no GST

Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce falls under GST exemption list? What is the concessional rate of GST on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce? Does Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce fall under GST exempted items?

As per GST Law 2017, there is no GST payable on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce. So the rate of GST payable on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce is nil rate.

Commonly used Goods and Services at 5%, Standard Goods and Services fall under 1st slab at 12%, Standard Goods and Services fall under 2nd Slab at 18% and Special category of Goods and Services including luxury - 28%. The most essential goods and services attract nil rate of GST under Exempted Categories. Luxury goods and services and certain specific goods and services attract additional cess than 28% GST.

This information is about GST on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce. Would you like to add more information about GST rate tariff on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce? Share below your comments about Goods and Service Tax levied on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce.

The above details about GST rate tariff on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce is only for information.

The validity of above information and amendments about GST rate on Services provided by a goods transport agency by way of transport in a goods carriage of agricultural produce may be verified before any business dealing.

Though GST rate for fertilizer was fixed at 12% and that on tractor parts as 28% were reduced to 5% and 18% respectively by GST council hours before launch of it . GST council is the powerful body that fixes rate for different commodities and it is represented by both central government and state government. The revision of tax rate is a continuing process of that federal body. So, we can expect a similar reduction in rates for other farm inputs and machinery as and when the demand is represented

7. NATIONAL AGRICULTURAL MARKET IN THE LIGHT OF GST

In order to achieve National Market in agriculture, there is need for harmonization in the provisions of APMC Act, EC Act and WDR Act. The implementation of GST is expected to facilitate the implementation of National Agricultural Market on account of subsuming all kinds of taxes/cess on marketing of agricultural produce as well as it would ease interstate movement of agricultural commodities which would improve marketing efficiency, facilitate development of virtual markets through warehouses and reduce overhead marketing cost.

Agricultural commodities are perishable in nature in varying degrees therefore trade is influenced by the time required for transportation. The Economist (Nov 8, 2014) reports that long distance trucks in India are parked for 60 per cent of the time during transportation. The simple uniform tax regime is expected to improve the transportation time, and curtail wastage of precious food.

The implementation of GST is expected to bring uniformity across states and centre which would make tax support policy of a particular commodity effective. The ease of availing tax credit under GST regime is expected to boost inter-state trade leading to achieving the objectives of National Agricultural Market.

The implications of GST on agricultural marketing needs further examination due to its features like business size. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Also, given the exemption of food from central Value Added Tax and 4 per cent Value Added Tax on food item, the GST under a single rate would lead to a doubling of tax burden on food. There is need for more clarity on exemptions available under CGST and SGST.

Some of the States are imposing Purchase Tax and Development Cess on sale of agricultural produce in the markets. For example, Maharashtra, earns more than 13,000 crore annually from octroi. Gujarat, on the other hand, earns about 5,000 crore from the CST. Agrarian states such as Punjab and Haryana earn more than 2,000 crore from purchase tax. Therefore, on account of subsuming this Tax/Cess in to GST may adversely affect the income of States.

The terms of trade can also be expected to improve in favour of agriculture vis-avis manufactured goods. The prices of agricultural goods would increase between 0.61 percent and 1.18 percent whereas the overall prices of all manufacturing sector would decline between 1.22 percent and 2.53 percent. Consequently, the terms of trade will move in favour of agriculture between 1.9 percent and 3.8 percent (GOI, 2012-13).

The increased agricultural prices are expected to improve terms of trade but at the retail level. There is need for an efficient agricultural marketing system ensuring the proportionate increase in the prices at the producers’ level as well. The national agricultural market which coincides with the proposed reforms in taxation through GST may help in developing a system ensuring balanced distribution of the value created.

Presently small scale of operations and low level of processing in agriculture may be one of the reasons limiting agricultural commodities to avail benefits of GST unlike manufactured goods. NAM is expected to help scale size of business and attract big players making the agricultural marketing reach a level to start availing benefits offered by GST.

GST is predicted to reduce incidence of suppressed sales since billing and payment of tax would be necessary for availing set-off of taxes at each stage. The same principle would apply to transactions between traders in agricultural commodities where there is substantial amount of suppressed sale.

8. MERITS OF GST IN AGRICULTURAL SECTOR

1. GST implementation will play favourable 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.

9. 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 equipments 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%.

GST is expected to reduce incidence of suppressed sales since billing and payment of tax would be necessary for availing set-off of taxes at each stage. The same standard would apply to transactions between traders in agricultural commodities where there is significant amount of suppressed sale.

The present system often, makes it difficult to implement tax support provided by the centre for an agro-commodity due to diverse policies adopted by the different states. The implementation of GST is predicted to bring uniformity across states and centre which would make tax support policy of a particular commodity effective.

The ease of availing tax credit under GST regime is expected to lift inter-state trade leading to achieving the objectives of National Agricultural Market.

10. CONCLUSION

An increase in the cost of few agricultural products is anticipated due to the rise in inflation index for lesser 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 certify that farmers in India, who contribute the most to GDP, will be able to sell their produce for the best available price.

The implementation of GST is inevitably linked to successful implementation of NAM as it aims at unified tax structure of goods and services which would eventually include agricultural produce. The National Agricultural Market envisages smooth flow of goods across states leading to competitive and transparent prices with likelihood of increased share to the farmer in the value created in agricultural commodities. The learning's from the GST experience may also help in resolving various bottlenecks to be encountered in evolving a unified common agricultural market.

Overall, it seems, from the inputs side, that the cost of cultivation for farmers may increase 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.

GST is a "great step by Team India, great step towards transformation, great steps towards transparency".

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