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Impact of GST on Agricultural Sector: An overview

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Abstract: Goods and Services Tax (GST) GST is the most ambitious and remarkable indirect tax reform in India's post-Independence history. Its objective is to levy a single national uniform tax across India on all goods and services. GST has replaced a number of Central and State taxes, made India more of a national integrated market, and brought more producers into the tax net. By improving efficiency, it can add substantially to growth as well as government finances. Implementing a new tax, encompassing both goods and services, by the Centre and the States in a large and complex federal system, is perhaps unprecedented in modern global tax history. GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits up to the retailer level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services. Ultimately, the burden of GST is borne by the end-user (i.e. final consumer) of the commodity/service. With the introduction of GST, a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level has been established, eliminating the burden of all cascading or pyramiding effects of an indirect tax system. This is the essence of GST. GST taxes only the final consumer.

KEY WORDS: GST, Taxation, Agricultural.

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 states 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, and milk under the GST.

Review of Literature

• France was the first country to implement GST in the year 1954. Within 62 years of its advent, about 160 Nations across the world have adopted GST because this tax has the capacity to raise revenue in the most transparent and neutral manner.

• It has now been more than a decade since **the idea of national Goods and service tax (GST) was mooted by Kelkar Task force in 2004. The task force strongly recommended fully integrated GST on national basis**. Subsequently, the then Union Finance Minister, Sh. P. Chidambaram, while presenting the central Budget (2007-2008), announced that GST would be introduced from April 1, 2010. Since then GST missed several deadlines and continued to be shrouded by the clouds of uncertainty.

• GST is path breaking indirect tax reform which will create a common national market. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax and entry tax, etc.

• Most of the Nations, depending on their own socio- economic formation, have introduced National level GST or Dual GST .**India has adopted Dual GST model as followed in Canada and Brazil.**

CURRENT TAX LAWS

There are certain food items like rice, sugar, salt, wheat, flour which are exempted from CENVAT. Under the state VAT, cereals and grains are taxed at the rate of 4%. Agricultural products go through a lot of licensing and a number of indirect taxes (VAT, excise duty, service tax) under the current tax laws.

State VAT is currently applicable to all the agricultural goods at each state; it passes through prior to final consumption. Although there are certain exemptions available from state VAT for certain unprocessed food products like meat, eggs, fruits, vegetables etc.

NATIONAL AGRICULTURAL MARKET (NAM)

A scheme for the promotion of National Agricultural Market
(NAM) is introduced by the central Government. Involving all the farmer and traders in the regulated markets with a common e-commerce platform for a transparent, impartial trade of agri-

commodities can be termed as National Agricultural Market. Due to the different state VAT and APMC
(Agricultural produce market committee) laws, implementation of NAM scheme would be challenging.

GST is crucial for creating a path regarding the successful implementation of NAM. Most of the indirect taxes levied on agricultural products, would be subsumed under GST. GST would provide each trader, the input credit for the tax paid on every value addition. This will create a transparent, hassle-free supply chain which would lead to free movement of agri-commodities across India.

Most of the agricultural commodities are perishable in nature. An improved supply chain mechanism due to GST would reduce the time taken for inter-state transportation. The benefit of reduction in time would be passed on to the farmers/retailers. Some states in India like Maharashtra, Punjab, Gujarat, and Haryana earn more than Rs 1000 crores from charging CST/OCTROI/Purchase Tax. GST would subsume all the above taxes. Hence these states would need to be compensated for the loss of revenue.

IMPACT OF GST ON AGRICULTURAL 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%.

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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