



The Impact of GST on Agricultural Sector

T.Saritha

Assistant Professor in Commerce, Sri Bharathi Arts & Science College for Women, Kaikkuruchi, Pudukkottai, Tamilnadu, India.

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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.

Keywords: Impact, GST, Agricultural Sector.

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Introduction

Agriculture is one of the most critical sectors of the Indian economy. Growth and development of agriculture and allied sector directly affects well-being of people at large, rural prosperity and employment and forms an important resource base for a number of agro-based industries and agro-services. The agriculture sector in India has undergone significant structural changes in the form of decrease in share of GDP from 30 per cent in 1990-91 to 17.4 in 2015-16 (Annual Report, 2015-16 MoA & FW) indicating a shift from the traditional agrarian economy towards a service dominated one. However, this decrease in agriculture's contribution to GDP has not been accompanied by a matching reduction in the share of agriculture in employment, potential for enhancing the living standard of majority of the people. Improved agriculture marketing offers a major opportunity to achieve this objective.

Goods and service tax will have both negative and positive impact on agriculture. The price of agricultural commodities will go down, as previously the agricultural commodities are charged with different prices within the state, inter-state and in overall country. GST would lead to efficient allocation of resources. Terms of trade move in the favour of Agriculture as compared to manufacturing sector. This will increase prices of some commodities like milk, tea, etc. thus,

boon the millions of farmers in India. In nut shell we can say that it will effect directly and indirectly to agriculture sector.

Goods and Service Tax

GST stands for "Goods and Services Tax" and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST is an idea on which the indirect taxes (by central government, state government and custom duties) will be subsumed into a common single GST. The proposed GST is expected to streamline the indirect tax regime. It contains all indirect taxes levied on goods, including central and state-level taxes. Act as an improvement on the VAT system, a uniform GST is expected to create a seamless national market. GST seems to be more comprehensive, compliable, simple, harmonized and development oriented tax system. Main aim of GST is "one nation, one tax". 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 per cent (Central Board of Excise and Custom). Introduction of GST would also make Indian products competitive in the domestic and international markets. After GST, when a single taxation procedure will roll out we can say that inflation will come down. We can expect that the rate of taxation on necessary materials like agriculture product, medicines will be low or must be exempted. It will spread the positive energy to the people of the nation.

Correspondence

T.Saritha

E-mail: sarithamani.sbc@gmail.com, Ph. +9197880 76225

Features of Indian GST

It will be collected on VAT method i.e. tax at every stage of value addition. It will be imposed at an uniform rate @20 percent (Centre state share = 12 and 8 per cent respectively) Indian government will also apply an integrated GST that means only Centre can collect GST 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. Furthermore, indirect tax will not be subsumed into GST. 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.

Why this much hue and cry from different states

The governments of Madhya Pradesh, Chhattisgarh and Tamil Nadu arguing that the information technology systems and the administrative infrastructure so needed will not be ready by April 2010 to implement GST'. Some states fear that if the uniform tax rate is lower than their existing rates, it will hit their tax kitty. The government believes that dual GST will lead to better revenue collection for States. Backward and less-developed States could see a fall in tax collections. GST could see better revenue collection for some states as the consumption of goods and services will rise. However, states have sought assurances that their existing revenues will be protected. The central government has offered to compensate States in case of a loss in revenues.

GST: New for nothing

Central sales tax (goods movement) will continue in different form (i.e. integrated GST) and Central sale tax will be collected by central government for first two years but depending on the recommendation of GST council it may be extended further and thus disturbing the very purpose of introducing GST.

Certain items are exempted from GST like

1. Alcoholic liquor
2. Aviation turbine fuel/high speed diesel
3. Petrol
4. Stamp duty
5. Customs duty

But it is very well known that 40 per cent of state government revenue is from these items and thus the very purpose of introducing GST is at stake. GST is expected to build a business friendly environment, as it leads to charge a uniform tax rate. Indian economy is highly affected by the indirect taxes like service tax, VAT tax, duties sales tax etc. They are all affecting Indian economy in different area because most of indirect tax applied by state government in their particular state and that make differentiation in the form of rate of indirect taxes. Rahul Bajaj, chairman of the Bajaj Group. That a uniform tax rate, if lower than their existing rates, will dent collections. However, the central government has

said it will compensate states for the potential revenue loss. Mr. Chidambaram (former finance minister) has set aside Rs. 9,000 Crore towards the first installment of the balance of central sales tax (CST) compensation.

Views on GST

Have same view about GST, they said that GST acts as helper in the collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government and thus ultimately helpful in development of Indian economy. It was further reported that GST will lead to provide commercial benefits, which were remained untouched by the VAT system. Jaiprakash had same view that GST at Central and State levels are expected to give more relief to agriculture, industry and consumers. He also indicated that trade and industry have encouraging responses to GST. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation. Overall GST is helpful for the development of Indian economy as well it will be very much helpful in improving the gross domestic product of the country more than two percent.

Impact of GST on Farm sector

The execution of GST is expected to boost the agricultural market as taxation under a subsumed single rate would make the movement of agricultural commodities hassle free as the products would be able to reach places via trucks in a better way. Interstate trading of a particular product often is subjected to various taxes, permission, license required for different states at every point of their transaction. This had often created hindrance in trading of products across the country for many traders in the past. So implementing GST would be the first step towards liberalizing the marketing of agricultural products and creating a smooth transaction of goods. GST would make the agro-machineries affordable to the small and marginal farmers in India which was beyond their reach due to high excise duty on the machinery.

Agricultural products were always subject to diversity in the taxation rates so a single rate of goods and service tax would benefit the national agricultural market and help the farmers and traders to sell their products in any part of the country and receive the best price for their product. The proposed GST rate should provide consistency in tax of processed and unprocessed food items so that processed food comes within the reach of all the consumers. The slab for GST mention in their study. Has analyzed that GST would lead to efficient allocation of factors of production. The overall price level would go down. It is expected that the real returns to the factors of production would go up.

Their results showed gains in real returns to land ranging between 0.42 and 0.82 per cent. Wage rate gains varied between 0.68 and 1.33 per cent. The real

returns to capital would gain somewhere, between 0.37 and 0.74 per cent. In sum, implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports.

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.

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. Will impact increase in prices of agri – inputs. 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 implementation on the farmer's profitability

Farmers' profitability largely depends upon tax structure for the inputs unitized 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. 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 exempt Delong 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.

Effect of GST on the export market of agri – inputs

The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost. In general, with Constitutional Amendments, both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in The GST Council has broadly approved the GST rates for goods at nil rate, 5%, 12%, 18% and 28% to be levied on certain goods.

GST implementation and pm's vision of doubling farmer's income by 2022

One country one tax system is the prime objective of GST; however, it may have an impact on the PM's Vision of Doubling Farmer's Income by 2022 due to changes in the tax rates at various levels of supply chain. Approximately 40% of the respondents were not able to relate both of them as there are various components which need to be taken into account while finding a correlation between both of them. However, 36% of the respondents feel that GST is in line with the PM's Vision of Doubling Farmer's Income by 2022 as according to them, broader tax base, greater tax compliance and transparent tax system are pre – requisites for realism of PM's vision of doubling farmers' income by 2022.

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 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 increase in prices of farm output.

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