

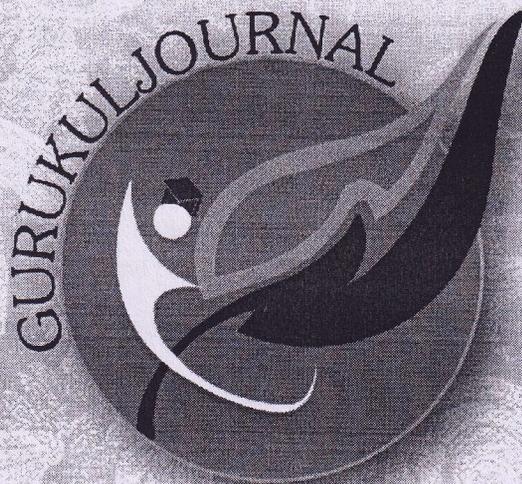
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## IMPACT OF GST ON AGRICULTURAL SECTOR

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### ABSTRACT:

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 there hold. Also, given the exemption of food form 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. Carns more than 13,000 crore annually from octopi. 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. Therefore, it would be necessary to compensate such states in the beginning of introduction of GST.

Keywords: GST, VAT, Agriculture, National Market, GDP

### INTRODUCTION:

The terms of trade can also be expected to improve in favor 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 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 reasoned 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 of 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.

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 state lines all over India. It is highly probable the 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 of agricultural products. Special reduced rates should be declared for items like tea. Coffee, milk under the GST.

### 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 and are taxed at the rate of 2% 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) law's, 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 product., would be subsumed under GST. GST would provide each trader, the input credit for the tax paid on every value addition This will crease 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, Panjab, Gujarat, 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 manufactures will be able to claim Input Tax Credit.

India's milk production in 2015-16 was 160.35 million ton, increased from 146.31 mt 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%

#### **Benefits' of GST to the Indian Economy :**



  
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- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of cascading effect of taxes i.e. removes tax on tax.
- Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- Boost to the Indian economy in the long run.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors. Such as the seller's profit margin, that determines the final price of goods. GST alone does not determine the final price of goods.

#### How will GST impact the Indian Economy?

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure. Pumped with myriad tax clause, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.
- Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

#### GST: ITS IMPLICATIONS ON NATIONAL AGRICULTURAL MARKET

India is a unique experiment in federal governance with the challenge for ensuring efficient economic development without compromising independence of state. Good and Services Tax (GST) was envisaged to have a simple harmonized tax structure with operational ease leading to single unified market at national level for goods and services while ensuring that





there is no negative revenue impact on the states. On a similar vein, the central sector scheme on National Agricultural Market has been launched to ensure efficiency in agricultural marketing. The underlying principle in both the initiatives is to have a national market facilitation trade and transparency.

#### **GOODS AND SERVICES TAX (GST)**

Goods and Services Tax proposes to introduce a single tax on supply of good and services or both, by amalgamating all the central indirect taxes ( excise duty, countervailing duty and service tax) and state indirect taxes (VAT, luxury tax, entry tax, octopi, etc) GST seems to be more comprehensive, compliable, simple, harmonized and development oriented tax system. The GST, unlike the present system, will allow the supplier at each stage to set-off the taxes paid at previous levels in the supply chain. It is essentially a tax on value added at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain. With set-off benefits at all the previous stages(GOI).

#### **NATIONAL AGRICULTURAL MARKET (NAM):**

A Central Sector Scheme for promotion of National Agricultural Market has been introduced by the Ministry. The scheme envisages networking of selected markets to a common electronic platform to be developed by the Central Government. The identified regulated markets across the country will be integrated with the common e-platform to provide farmers and traders with access to opportunities for purchase/ sale of agri commodities at optimal prices in a transparent manner across the country. The commodities brought in the market linked to the National Market will be traded on the basis of their assessment/grade specification electronically. In an ideal situation this implies that a traders/buyer anywhere in the country will be able to bid for this commodity. The settlement of payment will be made electronically by integrating financial institutions with the Market. The concept has the potential of eventually developing into a comprehensible model facilitating integration will lead to enhanced regional cooperation. The common market Is expected to have an advantage over existing markets in terms of transparency, competition, efficiency, market information, risk, price signal, etc due to operation on e-portal, participation of large number of traders and integration of various services. It is a paradigm shift in the existing structure of agricultural marketing requiring business re-engineering.

#### **APMC Act :**

The agricultural produce markets in different states are regulated by APMC Acts of their respective states. Each state is having different provisions under its Act. The provisions defined under these Acts create legal barriers to the inter-state trade and physical movement of goods viz (a) Taxation Related Barriers (variation in rates. Applicability of VAT, levy of market fee at multiple point, etc.) ; (b) Physical Barriers (Essential Commodities Act, Check Posts, APMC Regulations, etc.) and (c) Statutory Barriers relation to licensing and recitation of traders, commission agents. The Government of India circulated a Model Act in 2003 to all the States/UTs to bring uniformity in the regulation, management and operation of agricultural marketing.

#### **Essential Commodity Act, 1955 (EC ACT):**





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The list of commodities covered under the EC Act has been reduced from 54 to 7 at present. However, in order to contain the inflationary pressure on prices of essential commodities, the Government has been imposing stock limits on paddy, rice, pulses, sugar, edible oils and edible oil seeds, etc as and when required to contain the inflationary pressure. The ad-hoc approach on imposition of control on stock limits and movement of produce goes against the spirit of reforms and hinders investment and free trade in the country.

**Material Method:**

This is the descriptive research paper base on secondary data. The literatures is collected from various journal, books, magazines, periodicals, various reports, publications of recent research papers available in different websites.

**Conclusion:**

The implementation of GST is inevitably linked to successful implementation of NAM as it aims at unified tax structure of goods and services which old eventually include agricultural produce. The National Agricultural Market envisages smoothed flow of goods across sates leading to competitive and transparent prices with likelihood of increased share to the farmer in the value created in agricultural commodities. The leavings from the GST experience may also help in resolving various bottlenecks to tub encountered involving a unified common agricultural market. An increase in the cost of few agricultural products is anticipated due to the rise in inflation index for a belief period. Thought, 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. Amidst economic crisis across the globe. India has posed a beacon of hope with ambitious growth targets, supported by a bunch of strategic undertaking such as the Make in India and Digital India campaigns. The Goods and Services Tax (GST) is also expected to eliminate the cascading effect of taxes. India is projected to play an important role in the world economy in theirs to come. The expectation of GST being introduced is high not only within the country. But also within neighboring counties and developed economies of the world .

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