Impact of GST on Agriculture: A Review

S.B. Sreerama Naik

Lecturer in Economics, V.R.S. Degree College,V.N. Palli, YSR Dist, A.P. India.

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: Agricultural commodities, GST, VAT, indirect tax

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. About 52 per cent of the total workforce is still employed by the farm sector which makes more than half of the Indian population dependent on agriculture for sustenance (NSS 66th Round). Value addition in agriculture, thus, holds huge 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 all 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.

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 in 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.

Arguments 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, told Reuters in November 2012. Some states fear 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:

Shaik et al. (2015) 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 Indain 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 mention by Chaurasia et al. (2016) in their study.

Chadha et al. (2009) 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. This would translate into enhanced economic welfare and returns to the factors of production, viz. land, labour and capital.

Satish Chander, Director General, FAI said that fertiliser products are likely to suffer from higher incidence of taxes with implementation of GST. Therefore, it is strongly felt that there is a need for the government to pay special attention to fertiliser sector, keeping in view its direct linkage with farmers and agriculture. Any new tax regime should not directly or indirectly increase the cost of fertilisers to the farmers, especially when government continues to provide subsidy on fertiliser directly or indirectly. Prima facie, the government should thus; either allows zero or concessional rate of GST on fertilisers.

Nirmal Khurana, Chairman of the ITA's said that tea is a product of mass consumption; it should have a special rate under the GST regime. , GST rate on tea should be kept on a par with the current tax rate of 5-6per cent. The present concessional tax rate of 0.5/1per cent for teas sold through auctions is allowed to continue under the GST regime. Otherwise, tea will become costlier.

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 rate of processed food should be different for different income group to make the benefit of such food available for all the consumers.
- Currently, there is no tax to procure milk from farmers. We only pay 2 per cent central VAT on sale of milk powder to a company. When GST gets implemented, the tax can be 12.5per cent or 15per cent or 18per cent. There will be a straight cost hike in milk and milk product prices. India ranks first in milk production covering around 18.5per cent of the world production. Its annual production for the year 2015-2016 amounted to 155.49 million ton (Indiastat) and records an increase every year, and milk being a basic necessity in many households, an increase in the price would not be readily welcomed by the consumers.
- 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.

CONCLUSION:

It can be said from the above that GST is expected to have both positive and negative impact on the farm sector. In case of milk, Tea and Fertilizer it is expected to show a negative impact. These are the most popular commodities in India. In case of milk there is no tax to procure milk from farmer, when GST will be implemented it leads to increase the milk prices and this would not be welcomed by consumers. GST will make tax system more transparent as single tax system is available to whole country. Agricultural products were subjected to diversity of taxation rates; as single rate of goods and service tax would help the farmers and also to traders because they can sell their produce in any part of the country.

REFERENCES:

1. Chadha, R., Tandon, A., Ashwani, Mohan, G., & Mishra, P. (2009). Moving to goods and services tax in India: Impact on India’s growth and international trade. (NCAER Working Paper No. 103).

2. Chaurasia, P., Singh, S., & Sen, P.K. (2016). Role of good and service tax in the growth of Indian economy. International Journal of Science Technology and Management, 5(2), 152-157.
3. Gupta, N. (2014). Goods and Services Tax: Its implementation on Indian economy, International Research Journal of Commerce, Arts and Science (CASIRJ), 5(3), 126-133.
4. Shaik, S., Sameera, A.S., and Firoz, C.S. (2015). Does goods and services tax (GST) leads to Indian economic development? Journal of Business and Management, 17 (12), 1-5.

Webliography

http://blog.saginfotech.com/gst-impact-on-agriculture-sector-india

http://www.cbec.gov.in/resources//htdocs-cbec/gst/gst- concept-status-112016.pdf

http://www.faidelhi.org/Frankper cent20notes/IJF-May-16.pdf

http://www.indiastat.com/default.aspx