Abstract: Agricultural sector is the most important sector of Indian economy. It contributes around 16% of GDP. About 52 per cent of the total workforce is still employed in this sector which makes more than half of the Indian population dependent on agriculture for sustenance. 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.

GST was a long-awaited tax reform since Independence, that was passed by both houses of Parliament and came into effect from 1st July 2017. The implementation of GST would have an impact on many sections of the society. After the introduction of Goods and Services Tax (GST) is influencing the common people living in all section sections of the society. The impact of GST on agricultural sector is under dispute. 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.

Keywords: Agriculture, GST, prosperity, employment, tax system, impact, growth, development.

1. Introduction

Agriculture sector is an important means of livelihood for 58.4% of India's population. Its contribution accounts one-fifth of the total gross domestic product (GDP) and about 10% of the total export earnings. It also provides raw material to a large number of industries.

In the earlier taxation system agriculture sector has enjoyed a special treatment and has been granted various tax exemptions and concessions by both Central and State Governments. Sale of agricultural produce has been exempted from the levy of VAT. State wise exemptions from levy of VAT have been granted to commodities like Cereals, paddy, rice, wheat, pulses, fresh plants, fruits and vegetables, milk, eggs, meat, etc. Concessional rates of VAT have been levied by various states on agricultural machinery and implements, agricultural tractors, trailers and trolleys, harvesters, threshers, including attachments, components and parts thereof.

The basic idea of GST is to levy tax at each stage of supply of goods and services along with granting of input tax credit of the taxes paid at the earlier stage. With GST various tax exemptions and concessions being enjoyed by the agriculture sector was removed. These changes result in an increase in agricultural cost.

2. Present Tax System In India

Since the mid of 1980s, various indirect tax reforms have taken place, although in a piecemeal manner. The tax reforms have greatly changed the taxation system of the nation and has helped in eliminating the cascading effect of tax-on-tax. However, the introduction of new taxes have been only partly successful. Value-added taxation in the country was introduced in 2005, and replaced sales taxes and covered across transactions and sale of goods up to the retail stage. VAT ensured that every person in the transaction chain gets credit of all the taxes paid on previous purchases. However, this did not entirely eliminate the cascading effect of taxes.

As per the VAT regulation Central Government levied income Tax, Customs duties, Service tax, and Central excise duties. State Governments power to impose tax limited to Value Added Tax, Stamp duties and Land Revenue, State Excise on Liquor and certain agricultural goods. There are different local indirect taxes levied like Local Body Taxes (LBT) or Octroi.

2.1 Shortcomings of Existing Tax System

1. Tax Dropping: The most significant contributing factor to tax cascading is the partial coverage by Central and State taxes. Sectors that
are exempted are not allowed to claim credit for the Cenvat or the Service Tax paid on the inputs.

2. Levy of Excise Duty on manufacturing point:
The CENVAT is levied on goods manufactured or produced in India. Restricting the tax to the point of manufacturing is a severe obstruction to an effective and unbiased application of tax.

3. Complexity in determining the nature of transaction; sale vs. service

4. States are unable to levy taxes on services:
They have no powers to collect tax on incomes or the fastest growing constituents of consumer expenditures; that is on services. The States have to rely almost exclusively on rate increase for any flexibility in their own-source revenues.

5. Lack of uniformity in provisions and rates

6. Fixation of sales; local sale vs. central sale

7. Interpretational issues: Whether an activity is sale or works contract; sale or service, is not free from doubt in many cases.

GST eliminates all this discrepancy by making no distinction between goods and services. This implies that with GST tax evasion will not be possible by selling goods and services and gaining undue tax benefit. In addition, GST ensures that all the transactions will be taxed at the same rate throughout the country. Moreover the new tax framework include almost all the indirect taxes taxed by center and different states, which effectively eliminates multiplicity of taxes on goods and services.

3. What is GST?

Goods and Service Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every stage of value addition in the process involved from production to consumption, on goods and services.

In India GST was introduced on 1 July 2017 and was applicable throughout India. GST replaced different cascading taxes levied by the central and state governments. It was introduced as the Constitution Act 2017, following the passage of Constitution 122nd Amendment Act Bill. The GST is administered by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%.

It is a single indirect tax for the whole nation, which will make India a unified common market. It is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Currently, tax rates differ from state to state. GST will ensure a comprehensive tax base with minimum exemptions, will help economy to go further.

3.1 How does GST work?

There are three kinds of Goods and Service Taxes. CGST: where the taxes will be collected by the central government, SGST: where the tax will be collected by the state governments for intra-state sales and IGST: where the tax will be collected by the central government for inter-state sales.

Assume a dealer in Maharashtra selling goods to a consumer in Maharashtra itself worth Rs. 10,000. The Goods and Services Tax rate is 18%. It comprise CGST rate of 9% and SGST rate of 9%. Here the dealer collects Rs. 1800 and of this amount, Rs. 900 will go to the central government and an equal amount will go to the Maharashtra government.

Now, let us assume the dealer in Maharashtra had sold goods to a dealer in Gujarat worth Rs. 10,000. The GST rate is 18% comprise of 9%CGST and 9% SGST. In such case the dealer has to charge Rs. 1800 as IGST. This IGST will go to the Centre. There will no longer be any need to pay CGST and SGST. Working of GST can be explained in different stages.

Consider a manufacturer of bread in stage one, who buys a raw material to make a bread - wheat, sugar, yeast- including the tax of 10% the expense for him was Rs 100. With these he produce bread. He adds value to the materials in the process of producing the bread. Let us assume the value added by him to be Rs. 30. Then the gross value of the bread becomes Rs 130, (Rs 100 + 30). At a rate of 10%, the tax on output on bread will then be Rs 13. But under GST, the person can set off this tax Rs 13 against the tax, as he has already paid on raw material and inputs Rs 10. Therefore, the actual incidence of GST on the manufacturer is only Rs.3, making GST a tax only on the value added.

In Stage second consider the bread is passing to a distributor. He buys it for Rs.130 and adds on value of Rs.20. Then the gross value of the goods the wholesaler sells would then
becomes a total of Rs 150 (Rs130 + 20). A 10% tax on this amount will become Rs 15. But again, under GST, one can set off the tax on his output Rs 15 against the tax on his purchased good from the manufacturer Rs 13. So, the real GST incidence on the wholesaler is only Rs.2 (15 – 13).

In the final stage consider the bread is passing to the Consumer: assume a retailer buys the bread from the wholesaler. He adds an amount of Rs.10 to his purchase of Rs.150. Therefore the gross value of the shirt he sells goes up to Rs.160 (Rs.150 + 10). At this stage the tax a 10% will be Rs.16. By setting off this tax (Rs.16) against the tax on his purchase from the wholesaler, the he brings down the effective GST incidence on himself to Rs.1 (16 – 15). Thus we come to an conclusion of the total GST on the entire value chain from raw material i.e. input suppliers through the manufacturer, wholesaler and retailer is Rs 10+3+2+1 = Rs 16 as a grand total, which is finally borne by the consumer.

4. GST in India: Historical Evolution

France was the world’s first country to implement GST Law in the year 1954. Since then, 159 other countries have adopted the GST Law in some form or other. Many countries, VAT is substitute for GST, but unlike the Indian VAT system, these countries have a single VAT tax which fulfils the same purpose as GST.

In India, the discussion on GST Bill was flagged off in the year 2000 during the time of then Prime Minister AtalBihari Vajpayee by setting up an empowered committee, headed by AsimDasgupta. Later in 2006, Union Finance Minister Shri P. Chidambaram moved towards GST in his Budget, and proposed to introduce it by 1st April, 2010. The Empowered Committee of State Finance Ministers (EC) released its First Discussion Paper (FDP) on the GST in November, 2009. This spells out the features of the proposed GST and has formed the basis for discussion between the Centre and the States so far. LokSabha passed the much-delayed Constitutional Amendment Bill to introduce Goods and Service Tax on on 6th May 2015, the. The final bill was passed in both houses of the parliament in 2016 and the new tax system was live from July 2017 in the country.

5. Impact of GST on the Indian Economy

The uniform nature in tax procedures and rates throughout the country will lead to number of benefits for the economy and the consumers. It include the unification of market as a result of the amalgamation of various taxes into GST and simplification of the procedure at national level, by an increase in tax revenue, increase in exports due to cost effective production, consumers also gain by a fall in tax burden and the predicted growth of GDP.

The existing indirect tax structure was a major impediment in India’s economic growth and competitiveness. Tax barriers in the form of CST, entry tax and restricted input tax credit have fragmented the Indian market. Cascading effects of taxes on cost make indigenous manufacture less attractive. Complex multiple taxes increase cost of compliance. In this situation, the introduction of GST is considered crucial for economic growth. GST will have quite a favourable impact on Indian economy. Some sectors will have more favourable impact compared to others under the proposed GST.

This removal of tax barriers on introduction of uniform GST across the country will make India a common market leading to economies of scale in production and distribution. It will expand trade and commerce. GST will have favourable impact on organised logistic industry and modernised warehousing.

GST is helpful to remove cascading effect earlier taxes on cost of production of goods and services. It will reduce cost of indigenous goods and promote production in the country. The major beneficiaries of GST are the sectors which have long value chain from basic production to final consumption such as FMCG, pharma, consumer durables, automobiles and engineering goods.

GST will facilitate easiness of doing business establishments in India. Integration of existing multiple taxes into single GST will significantly reduce cost of tax compliance and transaction cost. This stable, transparent and predictable tax regime will encourage local and foreign investment in India creating significant job opportunities.

Reduction in product and area-based exemptions under GST will expand the tax base. This will help the government to keep GST rates lower. It may have favourable impact on prices of goods in the medium term.
GST will eliminate the scope of double taxation in certain sectors due to tax dispute on the nature of good or service. Sometimes the particular transaction may come under supply of goods or provision of service such as licensing of intellectual properties like patents and copyrights, software, e-commerce and leasing.

GST will increase the burden of procedural and documentary compliance in the country. Number of returns will increase significantly so also the extent of details regarding the sales and other procedures. Similarly a person providing services from several states will have to take registration and file return in all such states.

GST will also have impact on cash flow and working capital. Cash flow and working capital of business organisations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.

It is also important to note that all indirect taxes will not be subsumed in GST. Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products like crude, natural gas, ETF, petrol and diesel will not be included in GST on its introduction. Hence those sectors where these goods form significant input will not get full benefit of GST.

GST may create inflationary impact on many sectors. Cost and price structure in telecom, banking and financial services, air and road transport, construction and development of real estate increased considerably. Another fact is that the high rate of GST comparing to the existing VAT or excise duty, leads to increase in cost of production or the price of the commodity in the case of many commodities.

5.1 Agricultural Sector in India

India is primarily an agriculture based society. This agrarian society is one of the largest contributor to the Indian GDP. It is estimated that more than 58 percent of rural household depend on the agriculture sector for earning their livelihood. The definition of agriculture includes the breeding and cultivation of plants, animals, and fungi for the purpose of food, medicine, clothing, fuel, and other allied purposes. Therefore, the agriculture sector not only includes merely farming, horticulture or animal breeding.

The agriculture sector includes everything under agriculture including the allied sectors such as forestry and fisheries.

In GST law “agriculture” includes the raising of crops, grass or garden produce and also grazing, but does not include dairy farming, floriculture, horticulture, sericulture, poultry farming, stock breeding, raising of man-made forest or rearing of seedlings or plants the mere cutting of wood or grass, gathering of fruit. However, under the Service Tax law, agriculture has been defined as 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 term agricultural produce has also been defined under the service tax law and the following services relating to agriculture or agricultural produce specified in the negative list are currently not liable to service tax.

Table 1: Comparison of GST rate and old tax rate on agriculture

<table>
<thead>
<tr>
<th>Goods</th>
<th>Old Rate</th>
<th>GST</th>
<th>Diff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cheaper</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed, Organic compost without brand</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Headpump and its parts</td>
<td>12.5</td>
<td>5</td>
<td>-7.5</td>
</tr>
<tr>
<td>Tractor</td>
<td>12.5</td>
<td>12</td>
<td>-0.5</td>
</tr>
<tr>
<td>chemical fertilizer</td>
<td>12</td>
<td>5</td>
<td>-7</td>
</tr>
<tr>
<td><strong>Expensive</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tractor Tire &amp; Rim</td>
<td>12.5</td>
<td>18</td>
<td>5.5</td>
</tr>
<tr>
<td>Other tractor parts</td>
<td>12.5</td>
<td>18</td>
<td>5.5</td>
</tr>
<tr>
<td>Harvester, Earth, Grader, Parts</td>
<td>0</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Insecticide</td>
<td>5.5</td>
<td>18</td>
<td>11.5</td>
</tr>
</tbody>
</table>

5.2 Advantage of GST on Agriculture Sector

With the Goods and Services Tax (GST) now being a part of our economy, change is realised in the initial months of implementation itself. GST is one of the largest tax reforms made in independent India and is a unique experiment in India's indirect tax economy. GST will do is to
replace all the different taxes by the State and Central governments by a single tax.

Agriculture is an important sector - perhaps the most important sector. It provides livelihood to most number of people in India. Agriculture sector contributes 17% share of Gross value added in the total GDP of country and employs 54.6% of population as per Census 2011. So it is an important indicator which explains, how the country is developing to the world the world. Hence the impact and implication of GST in agriculture matters much.

Indian agriculture is criticized over the years for poor supply chain and not so easy interstate trade. With introduction of uniform taxes, seamless transport of agricultural commodities is expected. Earlier VAT varies across states that discourage transportation to distant markets. Agricultural commodities are perishable in nature in varying degrees therefore trade is influenced by the time required for transportation. In India due to different taxes in each states long distance trucks in India are parked for half of the transportation time. The simple uniform tax regime improve the transportation time, and curtail wastage of precious goods.

In the earlier system, it was difficult to implement tax support provided by the centre for an agri-commodity due to heterogeneous policies adopted by the different states. The implementation of GST is expected to bring uniformity across states and centre which would make tax support policy of a particular commodity effective.

Uniformity in tax structure across states and centre 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.

Under the present GST system, commodities like grain, fruits, vegetables and milk will not be taxed. This should reduce prices, providing some relief for consumers. However, this may magnify the problem for farmers. Namely that their cost of production seems set to go up, but the final price of the commodities seems to fall.

The terms of trade can also be expected to improve in favour of agriculture against 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. As a result, the terms of trade will move in favour of agriculture between 1.9 percent and 3.8 percent.

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 new regulations is also applicable to transactions between traders in agricultural commodities where there is substantial amount of suppressed sale.

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 will improve marketing efficiency, facilitate development of virtual markets through warehouses and reduce overhead marketing cost.

GST will also strengthen e-NAM (National Agriculture Market project) that provides online portal for electronic trading of farm produce to different ‘mandis’ across India. GST is expected to facilitate the implementation of National Agricultural Market 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.

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.

Considering the future, implementation of GST benefit the farmers in the long run with a single market which would help them to sell their produce at the best available prices. Thus, overall it will benefit the economy in the long run.

- 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.

- 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.

- Will reduce the time taken for inter-state transportation.
- Service tax will also be exempted in various services related to agricultural produce.
- An agriculturist would come under non-taxable person.
- All non-processed basic agriculture goods which are not chargeable under current VAT Laws would not be charged to tax in GST.
- Most raw agri-commodities ranging from rice, wheat, fresh fruits and vegetables are in zero slab, rightly so, they are consumed by the masses.
- India where poverty is major threat, high taxation system could be distorting the markets. With the advent of new GST (Goods and Services Tax) which seeks to lower the purchase cost of wheat and rice by 12% could be a major reform as of now.
- GST would also help in reducing the cost of heavy machinery required for producing agricultural commodities.
- Mandi taxes and associated cess and levies were distorting agricultural markets, thus driving out the private sector. GST could help in reinvigorating the interest of private sector in agriculture.

5.3 Disadvantage of GST on Agriculture Sector

The Goods and Services Tax (GST) is set to raise the price of most agricultural inputs like seeds, pesticides and farm equipment, adding to the cost of production for farmers. As the GST rates is same across the country, farmers will not be able to take advantage of inter-state price differentials.

The main issue in the application of GST is the impact it would have on those living at or below subsistence levels. The increased or new tax on to food negatively affect the people who are at the bottom of the income level. Taxing food or a higher rate on food could have a major impact on the poor.

Food includes a variety of items, including grains and cereals, meat, fish, and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals, and beverages. Earlier food was generally exempted from the CENVAT, many of the food items, including food grains and cereals, attract a low state VAT at the rate of 4%.

In rural area, the important distribution channel for unprocessed food would be either a direct sale by the farmer to final consumers or through small distributors. In general prices of most of the agricultural items and services are expected to rise after the implementation of the GST, although the overall inflationary impact of the proposed indirect regime will be negative.GST will impact agriculture very badly by increasing the input cost of raw material used by farmers;

- As the exemption given under VAT is limited to unprocessed food, the main impact of GST in agriculture is that it leads to inflation with currently 4% VAT being increased to 8% on many food items including cereals and grains.
- Shortages in agricultural goods which are imported as domestic produce could not fulfill the requirement are charged with custom duty. As custom duty would not be subsumed in GST, it will continue.
- 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.
- GST rates on Fertilizers have gone up from existing (5–7) % to 12 %, this is going to hit very hard to farmers. Means that the price of fertiliser going to increase by 5 - 7 % if there is not enough government subsidy.
- 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%. Pesticide is put into a tax slab of 18% from 12% and a VAT of 4–5% in some states.
- Tractors will be taxed at a rate of either 12% or 28%, up from the current 5% and it’s component are put on 28% slab. This increase in the input cost leads to an increase in cost of production for farmers.
• Changed the Definition of Agriculturist in the new GST Law i.e. many activities are taken out of agriculture purview like dairy farming which were previously considered as agriculture i.e.

The implications of GST on agricultural marketing needs further examination due to its features like business size. Even though the food is under the scope of GST regime, the above types of transactions would largely remain exempt due to small business registration threshold.

5.4 Challenges in implementing GST on agriculture sector

Changes are often resisted and such resistance arises because of the challenges faced while implementing the change or the struggle of coming out of the comfort zone during the process of change. Some of the changes, which are being preempted while implementing GST specifically in the Agricultural Sector include:

Coordination between the states and the center: Implementation of GST would have an impact on the state revenues, which in fact has delayed the process of implementation of GST across states and sectors of industry. Therefore, political will and state support would be required in synergy for implementing an effective GST regime across sectors.

Including different taxes which are outside the GST regime: The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

Creation and Availability of Infrastructure: In order to have an effective and efficient supply chain in the agricultural sector, infrastructure needs to be in tune with the increased volume of supply and trade. This would require some time and effort of the central government, state government, and all the individual stakeholders of the agricultural sector.

7. Conclusion

The agricultural sector is estimated to contribute about one fifth to our GDP. It accounts for about ten percent of India's export earnings. The effect of the newly introduced Good and Services Tax regime is calculated to be overall positive on the agriculture industry. There are little concerns, as in the case when something new is being implemented.

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates, a mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the control. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industrialist believe that the implementation of new tax system will make the business activities procedures in the country ease.

From the viewpoint of the consumer, they would now have to pay more tax for most of the goods and services they consume. GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.
Reference