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Goods and Services Tax: What it holds for Agricultural Sector?

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The recent indirect tax policy reform in the form of Goods and Services Tax (GST) is a welcome step by the Government of India. This structural reform is expected to make indirect tax regime simpler, tax burden rational, and improve tax compliance in the country. There is no study on the implications of GST on the agricultural sector. Such an analysis requires a comparison of pre-and post-GST rates on different agricultural inputs and services.

1. Agricultural Inputs

Seeds and Fertilizers: The seeds of crops for sowing maintain status quo in current indirect tax regime and therefore continue to be exempted from GST. Fertilizers industry in pre-GST period rejoiced the exemptions/concessions that led to 5-10 per cent tax on the value of finished fertilizer products (Chander, 2015). Assuming the average rate of tax at 7 per cent on fertilizers in excise and VAT regime, the overall tax on fertilizers would decrease by 2 per cent post-GST implementation which may led to marginal reduction in fertilizers prices. Further price of major fertilizers like Urea, Diammonium Phosphate (DAP) and Muriate of Potash (MOP) are expected to reduce by Rs. 6, 25 and 16 per bag, respectively. Such a marginal reduction in the price of fertilizers is expected to increase their usage.

Agro-Chemicals: Plant protection chemicals and plant growth regulators are widely used in modern crop husbandry practices. Placement of these agro-chemicals under 18 per cent GST slab (Table 1) would negatively affect the aspirations of farming community in the regions where their usage is limited but would encourage their judicious application in the regions of excess usage.

2. Farm Mechanization

Land preparation machinery: Implementation of GST will normalize the equipment price and eliminate the existing asymmetry in their price across the country. However, with GST, some of the prior exempted land-preparation machineries, equipments and their accessories have been brought under tax jurisdiction. Taxing these equipments at 12 per cent rate would be inhospitable for farm mechanization in the short-run. On the other hand, in states with scarce farm labour, the cost of mechanization might escalate on account of additional tax burden, which would push the cost of cultivation on an upward direction. If increase in the cost of cultivation is not consistent with the increase in the net returns from the crops, the farmers may have to incur losses which would be one of the barriers to the goal of doubling farmers' income in the short-run.

Water lifting equipment: Depending upon the brand and specifications of the pump, price of water lifting devises like electrical or diesel centrifugal pumps or submersible pumps is expected to go down by Rs. 25 to 85 per horsepower with GST implementation. The farmers of states like Uttar Pradesh and Punjab will be less benefited due to GST as compared to the farmers of Madhya Pradesh, Maharashtra, Karnataka etc. as the tax rate on the centrifugal and mono-block pumps in these states were higher in the past tax regime (Table 1).

Harvesting machinery: The harvesting machinery like reaper, mover, harvester, etc. earlier non-taxable, have been shifted under the slab of 12%. GST implementation has led to uniformity in their price across the country which may facilitate purchase of these equipments from the same state. However, the effect of an increase in their prices would vary based on the previous tax rates in the states.

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Table 1 : Tax rate on important agricultural inputs, equipments and machineries

Agricultural inputs		Pre GST Rates (%)						GST Rates (%)
		UP	MH	Karnataka	MP	Punjab	Centre	
Organic manure	*Unbranded*	Exempted	Exempted	-	0	0	Nil	0
	Branded	Not defined	Not defined	-	-	-	Not defined	5
Chemical fertilizers	*NPK*	Exempted	6	5.5	5	0	12.5	5
	Bio-fertilizers	4	6	5.5	0	0	Not defined	Not defined
	Micronutrient	4	6	5.5	5	0	Not defined	12
Plant protection chemicals & plant growth regulators		4	6	5.5	5	0	12.5	18
Irrigation *(Electrical pumps and oil engines)*		4	6	5.5	5	4	12.5	12
Land preparation	Manually operated/ Animal driven	Exempted	6	0	0	0	Nil	12
	Power-driven	Exempted	6	5.5	5	0	Nil	12
Plant protection *(Sprayers, duster, power-operated sprayers)*		Exempted	-	-	0	0	-	12
Harvesting and threshing equipment *(Reaper, mover & harvester)*		4	6	5.5	0	0	Nil	12
Tractor & power tiller		4	6	5.5	5	4	12.5	12
Solar panel/module		-	-	-	-	-	12.5	5

Source: Authors compilation from state VAT schedules and central excise schedule

Plant protection equipment: The plant protection equipments like sprayers, dusters (whether power-operated or manual), and sprayer-cum-rotavator have been exempted from taxation both by the Centre and state prior to GST. However, a 12 per cent tax on these equipments would increase the fixed cost of the farmers across the country.

Renewable energy devices: The solar cells (whether assembled in module/ panel) were earlier taxed @ 12.5 per cent and were exemptible from tax on approval of renewable energy projects by Ministry of New and Renewable Energy (MNRE). However, taxing solar cells @ 5 per cent (without any exemption and concession) under GST will negatively affect the sentiments of users of solar operated devices unless the provision of assistance on purchasing costs is given to bolster the use of renewable energy.

3. Agricultural Services

Generally agricultural services can be categorized under farm-related services (which are directly or indirectly related to agriculture or its produce) and research services. These services were included in negative list of the services in the previous tax regime. However, in the new policy framework, some of the agricultural services also attract GST.

Farm-related services: Prior to GST implementation, operations directly related to production of any agricultural commodity which do not alter its essential characteristics but make it marketable for the primary market; renting of agro-machinery or vacant land with or without a structure incidental to its use; secondary marketing functions; agricultural extension services; services provided by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce, etc. were included in the negative list of service tax and maintained status quo in the new policy framework. Other related services like credit and insurance are also non-taxable in GST. Hence, these services remain unaffected in the new tax policy framework and will not affect the stakeholders engaged in these operations.

R&D services: The placement of agricultural research and development services under 18 per cent standard tax slab would increase the cost of research and development in agricultural sciences. Consequently, the cost of development of agricultural technologies with collaborative service support (consultancy services) will be inflated. Private sector which is dominant in some agricultural technologies, transfers the burden of tax to its users by charging higher prices of technology based inputs.

Warehousing and cold storage: Taxation on storage and warehousing of agricultural produce maintains a status quo and remains free from taxes under GST regime. However, the cost of constructing new warehouse may increase because the input for construction of warehouses are subjected to GST without any corresponding opportunity to claim input tax credits as most of agri-warehouses are private and these are likely to remain unregistered supplier of service. On the other hand, imports of equipment to modernize agri-warehouses which were specifically exempted from countervailing duty and special additional duty (SAD) now attract 18 per cent integrated GST (IGST) coupled with existing 5 per cent basic custom duty. This will result in a surge in the cost of imported machinery, which in-turn increase the cost of construction of modern agri-infrastructure.

4. Processed Agricultural Products

Processing is an important operation in the value chain of agricultural commodities as it adds utility to agricultural produce using variety of machines and equipments for cleaning, sorting or grading, grains, vegetables, fruits and eggs, processing of cereals etc. Players in commercial poultry use machinery like incubators and brooders to carry out their day-to-day operations. In the excise and VAT regime, most of agricultural and poultry machineries were exempted, whereas the machinery used in dairy sector like milking machines and dairy machines were taxed at 12.5 per cent. With GST, some of the machines for cleaning, sorting or grading, grains, vegetables, fruits, eggs and processing of cereals attract five per cent tax while some others attract 12 per cent tax rate. Marginal reduction in tax in dairy machinery would act as a catalyst for attracting new investments and strengthen the dairy industry in the country. However, poultry, meat, fruits, vegetables and cereals processing units will attract higher taxes in the current tax regime which may act as a hindrance to food processing in a scenario when only about 2-4 per cent of fruits and vegetables and about seven per cent of cereals are being processed in the country (Acharya and Agarwal, 1998).

5. Dairy and Fishery

Dairying sector: Pre-GST, grass, hay, straw, concentrates, oil cakes, and feed were exempted from the central levies. However, oil cakes and other solid residues are now taxable @ five per cent. On the other hand, one per cent reduction in tax on veterinary medicines under GST may lead to reduced expenditure on veterinary medicines. On the output front, higher taxation on processed dairy product may affect their consumption. In case of higher tax on processed dairy products, the consumers would have a tendency to substitute their demand for milk product from unorganized sector which might be a set-back for the organized dairy sector. As a result, the processors can restrict their operations to few products to mitigate the problems and consequentially reduce its reach to milk producers and consumers which may alter the returns to the milk producers.

Fishery sector: Indian fishery sector is the third largest producer of fishes, employs about 15 million people and contributes significantly to the export revenue. With the implementation of GST, fishery sector may face initial hiccups as fishing tools and some aquatic products have been subsumed under the tax net. Fishing hooks, fishing rods, fishing tackles, and fishing twines earlier exempted, are now taxable at 12 per cent and fishing ropes are taxable at 18 per cent. However, the tax on fishing vessels maintains status quo at five per cent. Outboard motors and ice boxes which were taxed at 14.5 per cent in excise and VAT regime, now attract a GST of 28 and 18 per cent, respectively. Since most of the fishermen being unregistered will have to incur additional cost for inputs and would be disdain from availing any input tax credit which would be detrimental to their livelihood. On the output front, many of the processed aquatic products like dried / salted / smoked / chilled / frozen fishes; molluscs; crustaceans and aquatic invertebrates which were outside the tax ambit in excise and VAT regime, are now taxable @ five per cent, while fresh aquatic products maintain status quo and remain outside GST. Higher taxes on processed aquatic products will escalate their prices and render them less competitive in domestic as well international market.

6. Plantation Agriculture

Plantation crops were earlier exempted from the central excise duty, except tea, which was charged as Rupee one per kilogram. However, states like Karnataka, Tamil Nadu and Kerala which are the major growers of plantation crops, used to levy a net tax of 2 per cent on these crops. Under GST while fresh tea, coffee, cotton and jute are non-taxable, natural rubber attracts five per cent tax and its processed products attract differential tax rates as per their placement in different tax slabs.

7. Marketing and Trade

Agricultural commodities are perishable in nature in varying degrees and therefore, their quality is affected by the time required for their transit and hence the trade. In India, about 20 per cent of the transit time in a state is wasted by trucks at the check points and 5 per cent time at the toll booths. That has led to inefficient agricultural supply chains. This burden should reduce under GST.

Domestic trade: One of the objectives of GST is to have uniform tax rate for goods and services across the nation. By subsuming state entry tax and octroi duty, GST is expected to reduce the transit time; curtail wastage of perishable food items by easing the interstate movement of agricultural commodities which would improve marketing efficiency, and reinforce the spirit of the National Agriculture Market (NAM). However, similar reforms are needed for mandi charges/taxes as these vary from state to state for the same commodity (Table 2). Hence, the degree of market distortions on account of variations in the levy of market taxes/cess was applicable on different commodities in different states (Garg, 2015).

International trade: The agricultural trade constitutes 13.2 per cent of total exports and 7.1 per cent of total imports of India. The external and domestic trade of agricultural commodities is interlinked and hence the prices. The import of goods/services is likely to attract tax in the form of integrated goods and services tax (IGST) as it has been considered as interstate commerce. In addition to IGST, basic custom duties (BCD) would

Table 2 : Degree of market distortions in different states of India: Pre-GST

States	Sales Tax	Taxes (as % of MSP)
Uttar Pradesh	Pulses : 2 %, Foodgrains and Oilseeds : 4%	16.71
Punjab	NA	14.5
Haryana	Fruits & Vegetables : Nil, Foodgrains, Pulses & Oilseeds : 4%	11.5
Uttarakhand	NA	7.5
Himachal Pradesh	NA	5.0
Andhra Pradesh	All Commodities (except Maize, Jowar, Ragi, Bajra, Coarse grains): 4%	NA
Gujarat	Aniseed, Isabgoal, Cumin & Ajwain : 2%, Spices: 3%, Cotton: 4%,	NA
Karnataka	Food grains: Nil, Pulses : 2%, Oilseeds : 4%	NA
Madhya Pradesh	NA	9.2
Maharashtra	All agricultural commodities are exempt from sales tax	3.4
West Bengal	NA	2.5

Source: Garg (2015)

be levied on all the imports to the country. However, the export would be zero-rated that means an exporter can avail the advantage of input tax credit (ITC) facility and need not pay any tax to the Government for exports. On the other hand, the importer can avail the ITC facility for IGST and not for BCD. It seems that the new policy is export encouraging and import discouraging for the country (Box 1).

Box 1: Tax structure and provision of input tax credit for agricultural imports and exports

Scenario	Type of supply	
	Export	Import
Tax Structure	Zero-rated supply	IGST and BCD shall be levied
Input Tax Credit (ITC)	ITC allowed	ITC of IGST is allowed but not for BCD

8. Input Tax Credit (ITC)

GST is unique of all the previous taxation systems as it has inbuilt provision of input tax credit. The utilization of ITC at farmers' level is practically impossible as agricultural operations and products have been exempted from GST and thereby the farmers need not register under goods and services tax network (GSTN). An agro-processing firm can gainfully utilize the provisions of ITC if it qualifies for the registration or has voluntarily registered under GST. However, there exists a myriad of technical impediments on the utilization of ITC. These include the person or firm has to be registered under GSTN; the registered firm or person must have paid the taxes on inputs to the supplier and his supplier must have updated the information on GSTN. However, knowledge and awareness regarding various provisions and benefits of ITC among the registered users ensures its effective utilization.

9. Conclusion

The GST is a significant logical step towards a comprehensive indirect tax reform in India. The changes in the indirect tax policy in the form of GST are the intrepid move by the Government of India. Although, it is expected that the tax revenue of the Government will increase due to expansion of the tax net and subsuming majority of goods and services under a single umbrella, supply from the agricultural sector may experience initial hiccups in short run due to adjustment in prices. The price of almost all the inputs except seed, fertilizers and water lifting devices may witness upward revision after the inception of GST. However, elimination of cascading and multiplicity of taxation and increase in the compliance are the important and powerful drivers which are expected to bring out visible positive changes for the sector in future. However, we recommend for a lower GST rate for food processing, R & D services and farm machinery.

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