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Impact of GST on Agriculture and Allied Sectors: An Analytical Study

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Abstract

The primary sector has consistently served as the fundamental pillar of the socio-economic structure. As of 2026, the "Agriculture and Allied Sectors" continue to be a primary stabilizer for the economy, contributing significantly to the national income and supporting nearly half of the workforce. When the Goods and Services Tax (GST) was introduced on July 1, 2017, it brought in sweeping reforms to many sectors including agriculture and allied activities. While GST aimed to simplify and unify indirect taxation, its effects on farming, in the pre-GST era, few agricultural and allied sectors such as dairy farming, poultry farming, and stock breeding were not subjected to tax as they were included in the broad agricultural sector. But, under GST, the above three sectors are no longer part of the broad agriculture sector and therefore subject taxation. During the 56th GST council meeting held in September 2025, Union Government announced the GST 2.0 reforms, which officially took effect on September 22, 2025. These reforms transitioned the tax system toward a simplified two-slab structure of 5 per cent and 18 percent, resulting in significant tax relaxations for the agricultural sector. This paper explores the effects of GST on input prices, supply chain management, warehousing, and the export process for farmers. This study highlights a significant shift toward positive outcomes under the GST 2.0 reforms, particularly through the substantial reduction in costs for critical agricultural inputs. By slashing tax rates on essential machinery, such as tractors and harvesters and pesticides from higher brackets to a unified 5 per cent to 12 percent structure, the reforms have effectively lowered the financial burden on farmers.

Key Words: Primary Sector, Goods and Service Tax (GST), Reforms, Economy and Supply chain

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1. Introduction

"India is basically a consumption driven country and still 60% of the people are engaged into agriculture. So, in this GST there are good news – tractors, tractor tires, fertilizers, all the rates have been brought down" – Economist Prabir Kumar Sarkar

The idea of a nationwide GST in India was first proposed by the Dr. Vijay Kelkar Task Force on Indirect taxes in 2000. The objective was to replace the prevailing complex and fragmented tax structure with a unified system that would simplify compliance, reduce tax cascading, and promote economic integration. The implementation of GST has brought about a fundamental shift in the financial relations between the Central Government and the State Governments in India. GST is a unified tax system that replaced multiple indirect taxes levied by both the Central and State Governments. Under GST, both the Central and State Governments share the authority to levy and collect taxes on goods and services. This has led to greater harmonization and uniformity in the tax structure across States, promoting economic integration. The inception of unique tax system, it is expected to subsuming the taxes on agri-products and its commodities which facilitate more flexibility to farmers in exporting business. The transportation is one of the major challenges in agricultural commodities because they are subjected to decomposition during lapsing of storage period. The unique tax system prevents the unnecessary transportation to long distances and prevents the wastage of food products. It is also understood that there was no uniformity among all states for the implementation of GST of agro-commodities.

2. Objectives of The Study

1. To understand the Impact of GST on Agriculture and Allied Sectors
2. To examine Positive and Negative implications of GST on Agriculture and Allied Sectors
3. To study the differences between old GST and New GST (GST 2.0) rates in Agriculture and Allied sectors.

3. Methodology

This study aims at assessing the possible impact of GST on agriculture and allied sectors in India. The changes in rate of agriculture commodities after implementation of GST form the crux of the study. For the purpose of the study data is collected from secondary sources like annual reports of ministry of agriculture, reports of GST council, RBI reports, News Papers, National and International journals are used.

The following is an elaborate analysis of the changes:

GST Reforms in Agriculture and Allied Sectors

Table -1.0

Sector/Products	Old GST Rate	New GST Rate (2.0)
Farm Mechanization		
Tractors (< 1800 CC)	12%	5%
Tractor components (tyres, tubes, hydraulic pumps etc.,)	18%	5%
Sprinklers, Drip irrigation, Harvesting Machinery, Tractor	12%	5%
Diesel Engines (< 15HP), Harvesting/Threshing, Compressor	12%	5%
Fertilizer Inputs		
Ammonia, Sulphuric Acid, Nitric Acid (fertilizer raw materials)	18%	5%
Bio-Pesticides & Micronutrients		
Bio-Pesticides	12%	5%
Micronutrients under serial 1(g), schedule 1, Part (A) of Fertilizer Control Order 1985	12%	5%
Food Processing & Perishables		
Prepared/Preserved Vegetables, Fruits, Nuts	12%	5%
Dairy Sector		
Butter, Ghee, etc.,	12%	5%
Milk Cans (iron/steel/aluminum)	12%	5%
Aquaculture		
Prepared/Preserved Fish	12%	5%
Renewable Energy		
Solar Power-based devices	12%	5%
Forest Produce		
Kendu Leaves	18%	5%
Logistics & Transport		
Commercial Goods Vehicle (trucks, vans, etc.,)	28%	18%
Third-Party insurance of goods carriage	12%	5%

Source: Ministry of Agriculture

5. Elaborate Analysis of The Changes

The following is an elaborate analysis of the changes:

- **Farm Mechanization:**

GST on Tractors (,1800cc) to come down to 5%, lowest GST will bring down the purchase prices of tractors, making them more affordable for small and medium farmers who form the majority of tractor buyers in India. Lower prices will encourage mechanization in agriculture, helping farmers save time, reduce manual labor costs, and improve crop productivity. With cheaper tractors, even marginal farmers can access modern machinery through ownership or shared use in cooperatives and FPOs. Tractor tyres and tubes, Hydraulic pumps for tractors, and many other tractor components (18% to 5%) will also become cheaper.

Figure – 1.0



Source: https://www.google.com/search?sca_esv=671b6d2c45835e3d&sxsrf=ANbL-n4XjnPE_yGxFvH7gSYE8le-nsrTTg:

- **Sprinklers, Drip irrigation, Harvesting Machinery**

Encourages adoption of water-saving irrigation (drip, sprinklers), supporting sustainable agriculture, 12% to 5% fixed speed diesel engines of power not exceeding 15HP, harvesting or threshing machinery, composting machines, etc., These cuts will reduce the cost of farm equipment generally used by small and

marginal farmers, making them more affordable, boosts productivity and efficiency in sowing, irrigation and harvesting and boot farm mechanization.

- **Fertilizer Inputs:**

Major raw materials for fertilizer production, rate cut corrects inverted duty structure (IDS), ensures timely availability of affordable fertilizers, directly aiding farmers during sowing seasons, reduced production costs help companies avoid passing prices hikes into farmers, keeping fertilizers affordable and demand steady.

- **Bio-Pesticides and Micronutrients:**

Promotes Eco-friendly and sustainable farming practices by making bio-based inputs more affordable and encourages farmers to shift from chemical pesticides to bio-pesticides, improving soil health and crop quality.

- **Fruits, Vegetables & Food Processing:**

Encourages investment in cold storage, food processing, and value addition and reduces wastage of perishables, helping farmers realize better prices for produce and boosts exports of processed food items, enhancing India's position as an agri-export hub.

- **Dairy Sector**

Direct boost to dairy farmers by making their products more competitive, many farmers keep cattle to supplement their incomes, therefore, GST reduction will help in raising farmer incomes. Supports women-led rural enterprises, as dairy and dairy processing are key sources of income for women in self-help groups, promotes nutrition security by making essential protein and fat sources more affordable for households. GST on milk cans down to 5 per cent from 12 per cent (cans made of iron, steel or aluminum).

- **Aquaculture and Forest Products**

The reduction in the rate of tax on 'prepared or preserved fish (12% to 5%) is expected to boost aquaculture and especially Pisciculture across the country, GST on Natural honey to come down. It directly benefits beekeepers, tribal communities and rural Self Help Groups, who are major producers of natural honey. GST on artificial honey, whether or not mixed with natural honey down from 18 per cent to 5 per cent.

- **Kendu Leaves**

Kendu leaves are minor forest produce which act as major source of income for farmers and tribal of Orissa, Madhya Pradesh and Chhattisgarh. The livelihood of

these states depends partially on the prices of these leaves. The reduction in the rate of GST will help tribal and farmers of these areas.

GST on solar power based devices to come down to 5% from 12%. Cheaper solar power based devices will reduce irrigation costs and support farmers.

- **Commercial Goods Vehicles:**

Trucks, delivery-vans, etc., GST down from 28 per cent to 18 per cent, trucks are the backbone of India's supply chain (carry 65% - 70% of goods traffic). Reducing GST reduces upfront capital cost of trucks, which lowers freight rates per tone-km. This has a cascading effect. It will lead to cheaper movement of agricultural goods. Cheaper trucks directly help reduce logistics cost, improving export competitiveness.

Summary of the Tax Shift

Table- 1.1

Category	Previous Trend	New Reform Trend
Machinery & Parts	High (12% - 18%)	Uniformly Low (**5%**)
Chemical/Bio Inputs	Steep (12% - 18%)	Uniformly Low (**5%**)
Allied/Processing	Moderate (12%)	Low (**5%**)
Transport/Logistics	Very High (28%)	Standardized (**18%**)

Source: Table – 1.0

Overall, the data suggests a strategic move to correct the "inverted duty structure" and provide direct financial relief to the primary sector, thereby stabilizing the backbone of the economy.



Figure – 1.1

Source: Ministry of Agriculture

6. Positive impact of GST on Agriculre and Allied Sectors

- GST improved agricultural supply chains
- Availability of input tax credit (ITC) on every value addition to trader
- Brings uniformity in tax rates across all the states
- GST will strengthen Electronic national Agriculture Market (e-NAM).
- Most of the agriculture products are under nil rated under GST regime
- Improves Market Efficiency
- Increase in Exports due to improvement in terms of trade

7. Negative impact of GST on Agriculture and Allied Sectors

- Cost of Agriculture Inputs gone up under the GST regime.
- Increased tax rates for processed products under the GST regime
- GST will not allow taking advantage of inter-state price variations
- The price of fertilizers and pesticides increased under GST
- Changed the definition of agriculturists under GST law
- Adversely affected the state government exchequer
- Inflation has gone up

8. Findings

Major GST reforms, particularly the 22nd September 2025 updates, have significantly benefited Indian agriculture by slashing tax rates on inputs (machinery, fertilizers, bio-pesticides) from 12-18% down to 5%, enhancing mechanization and reducing operational costs. These reforms have fostered market integration, reduced tax cascading, and increased profitability for allied sectors like dairy and food processing.

- **Reduction in Input Costs (GST 2.0):** Effective September 2025, GST rates were lowered to 5% on critical farm equipment (tractors, spare parts, harvesting machinery, sprinklers, and drip irrigation).
- **Lowered Fertilizer Pesticide Costs:** GST on bio-pesticides and micronutrients was reduced, encouraging a shift toward sustainable farming and lowering cultivation expenses.
- **Boost to Allied Sectors:** Dairy farming, poultry, apiculture (bee keeping), and aquaculture benefit from lower tax rates on inputs, making these sectors more profitable
- **Improved Supply Chain & Logistics:** The introduction of the e-way bill system and the removal of state-level posts have streamlined the movement of agricultural products, allowing for better access to national markets.

- **Food Processing Advantages**: Lowered GST rates on machinery for food processing and preservation are expected to reduce food wastage and increase value addition.
- **Impact on Small Farmers/Cooperatives:** The simplified, lower-rate structure is particularly beneficial for small farmers and Farmer Producer Organizations (FPOs), aiding them in accessing better technology.
- **Increased Competitive Pressure on Imports:** Lowered taxes on agricultural goods make domestic produce more competitive against imported agricultural items.
- **Support for Tribal Livelihood:** Reduced GST on Kendu leaves directly supports the income of the tribal communities.

9. Conclusion

The shift from 2017 GST to GST 2.0 marks a transformative shift towards a pro-rural economy. While the original GST unified the market, it created compliance burdens and high input costs for farmers. GST 2.0 alleviates these challenges by lowering the cost of cultivation and modernizing logistics. Consequently, these reforms strengthen the agricultural value chain, promote sustainable farming, and directly align with the vision of a self-reliant agricultural sector (Atmanirbhar Bharat) by enhancing rural livelihoods and accelerating mechanization.

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