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GST Impact on Agriculture in India

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Abstract
Agriculture has always been the heart of India's economy, which supports millions of farmers and plays an important role in the country's growth. When the Goods and Services Tax (GST) was introduced in 2017, it brought a wave of uncertainty among farmers, especially small-scale ones, who worried about how it would affect their earnings. Anyways, the government ensured that taxes wouldn't burden small farmers, while larger agricultural businesses saw some key changes under the new system. GST was designed to simplify the taxation process, which makes it more transparent and uniform across industries, including the agricultural sector. But how exactly has it impacted farmers, agribusinesses, and the agricultural supply chain? Has it made things easier or more complicated? This article discloses the impact of GST on the Indian Agricultural Sector.

What is GST

Goods and Services Tax (GST), is a nationwide tax system introduced to simplify India's indirect tax structure. Before GST, multiple taxes like VAT, excise duty, and service tax were levied at different stages, this makes the taxation process complex and difficult to manage. GST was implemented on July 1, 2017, to replace these multiple taxes with a single, unified system.

This tax applies to the supply of goods and services at every stage of production and distribution. It follows a destination-based tax system, which means the tax is collected in the state where the goods or services are consumed, rather than where they are produced. GST aims to boost economic growth, reduce tax evasion, and make business operations smoother across the country by streamlining the taxation process.

Current Tax Laws on Agricultural Products in India In India, agricultural products are subject to various taxes at different stages of production and distribution. Some essential food items like rice, sugar, salt, wheat, and flour are exempt from the Central Value Added Tax (CENVAT), which reduces the tax burden on basic necessities.

Under the State Value Added Tax (VAT) system, cereals and grains are taxed at a standard rate of 4%. Anyway, certain unprocessed food products such as meat, eggs, fruits, and vegetables are exempt from VAT in many states to keep essential food items affordable for consumers.

Agricultural goods often go through multiple regulations, this includes licensing requirements and various indirect taxes such as VAT, excise duty, and service tax. Since these taxes are imposed at different levels, they can increase the overall cost of agricultural products before they reach consumers.

National Agricultural Market (NAM) and the Impact of GST

The National Agricultural Market (NAM) is a pan-India electronic trading portal that integrates existing Agricultural Produce Market Committees (APMCs) to create a unified national market for agricultural commodities.

Challenges Despite GST Fertilizers and agricultural machinery are taxed under GST (5% to 18%), increasing input costs. Small farmers are often not registered under GST, limiting their access to ITC benefits. Need for more APMC integration into the NAM system across all states. GST has strengthened NAM by removing tax complexities and enabling a truly unified national market for agriculture. With better supply chain management, reduced costs, and transparent pricing, it benefits both farmers and traders in the long run. The Impact of GST on the Indian Agricultural Sector The introduction of Goods and Services Tax (GST) has had a significant impact on India's agricultural sector. It plays a vital role in making the supply chain more transparent and efficient and helps to reduce delays and wastage in the transportation of agricultural goods. A well-organized supply chain means lower costs for farmers and retailers, this ultimately benefits the entire sector.

GST and the Cost of Agricultural Machinery

One of the key advantages of GST is that it helps to reduce the cost of agricultural machinery. Previously, multiple taxes increased the price of essential equipment, but with GST, manufacturers can now claim the Input Tax Credit (ITC), which helps to lower production costs. Anyway, certain agricultural activities like dairy farming, poultry farming, and stock breeding are not classified as agriculture under the GST law, making them taxable.

GST Impact on Fertilizers and Tractors

The impact of GST on fertilizers and tractors is particularly notable. Earlier, fertilizers were taxed at 6% (1% Excise + 5% VAT), but under GST, the tax rate has increased to 12%. Similarly, the exemption on tractor manufacturing has been removed, and a 12% GST is now applicable. While this raises initial costs, manufacturers can benefit from

ITC, which may lead to cost reductions in the long run.

GST and the Dairy Industry

The dairy industry has also seen changes. In the year 2015-16, India's milk production reached

160.35 million tons, up from 146.31 million tons in the previous year. Under GST, fresh milk remains tax-free, while skimmed milk is taxed at 5%, and condensed milk falls under the 18% tax bracket.

GST on Tea and Regional Impacts

Another commonly consumed agricultural product, tea, has also been affected. While tea was previously taxed at 4-5% VAT, under GST, it is now taxed at a flat 5%. States like Assam and West Bengal, which had lower VAT rates (0.5-1%), may see a slight increase in tea prices.

Conclusion:

Mixed Impact of GST on Agriculture

GST has introduced both challenges and benefits for the agricultural sector. While some costs have increased, the improved tax structure and streamlined supply chain can contribute to long-term efficiency and growth.

Benefits of GST on the Indian Agricultural Sector The introduction of the Goods and Services Tax (GST) has brought several positive changes to the agricultural sector in India. Multiple indirect taxes have been replaced with a single tax structure. GST has simplified the taxation process, which makes the process more transparent and efficient. Below are some of the key benefits of GST for the agricultural sector:

Streamlined Taxation System

Before GST, agricultural products were subject to multiple taxes such as VAT, excise duty, and service tax, which varied from state to state. With GST, most of these indirect taxes have been merged into a single tax, this reduced the confusion and compliance burden for farmers and traders.

Reduced Transportation Time and Cost

Under the previous tax system, inter-state transportation of agricultural goods was delayed due to multiple checkpoints and varying tax rates across states. GST has eliminated such barriers that ensure smoother movement of perishable agricultural products and reduce wastage. This has benefited both farmers and consumers by improving supply chain efficiency.

Availability of Input Tax Credit (ITC)

Under GST, agricultural businesses can avail of Input Tax Credit, which allows them to claim credit for the taxes paid on inputs like fertilizers, pesticides, and

machinery. This has reduced the overall cost of production, making farming more profitable.

Boost to National Agricultural Market (NAM)

GST has supported the implementation of the National Agricultural Market (NAM), an online trading platform that integrates markets across different states. With a uniform tax system in place, farmers can now sell their produce beyond state borders without facing different tax rates, this leads to better pricing and market access.

Lower Cost of Farming Equipment

GST has helped standardize the tax rates on farming equipment and machinery, this makes it easier for the farmers to purchase the essential tools. Although some agricultural equipment has seen a slight tax increase, the availability of the Input Tax Credit has balanced out the cost, this makes mechanized farming more accessible.

Strengthening the Supply Chain

A simplified tax system has improved the efficiency of supply chains in agriculture. With fewer taxes and easier inter-state trade, agricultural goods now reach markets faster, this ensures fair pricing and reduces post-harvest losses.

GST has played a vital role to improve the agricultural sector by simplifying the taxes, this has reduced transportation costs and boosted trade efficiency. While there are challenges, the long-term benefits of GST continue to support India's farmers and agricultural businesses.

Steps to follow to File GST in the Agricultural Sector GST Filing in the agricultural sector involves a systematic process to ensure compliance with tax regulations and benefits the input tax credits. Below is a step-by-step guide to file GST for businesses engaged in agricultural activities:

Impact of GST on the Agricultural Sector in India

The 56th GST Council meeting has announced important updates with changes effective from 22nd September 2025: GST on agricultural machinery (including fixed-speed diesel engines, hand pumps, nozzles, sprinklers, and tractors with engine capacity ≤ 1800 cc) has been reduced from 12% to 5%.

Harvesting machinery, self-loading trailers, composting machines, and hand-propelled or animal-drawn vehicles also saw a reduction in GST from 12% to 5%.

GST Overview and its Effect on Agriculture

Under the GST regime, the agricultural sector gets numerous benefits, including exemptions on most basic agricultural produce. Essential agricultural goods such as

grains, fresh fruits, and vegetables are exempt from GST. These items are exempted to keep them affordable for consumers and protect farmers from taxation on primary produce. However, products undergoing processing may fall under higher GST slabs.

GST Rates on Agricultural Commodities in India

GST rates on agricultural commodities vary based on their level of processing. Below is a breakdown of the applicable GST rates for different categories of agricultural goods

S.No	Product category	GST rate	Examples
1	Raw agricultural produce (unprocessed)	0% (Exempt)	Fresh fruits, vegetables, grains, pulses, milk
2	Processed and packaged food	5%	Sugar, edible oils, frozen vegetables, Ultra High Temperature (UHT) milk
3	Branded and packaged products	12%	Branded dry fruits, packaged paneer, butter, ghee
4	Processed foods & snacks	8%	Sauces, jams, pickles, packaged snack foods
5	Luxury and sin products	28%	Aerated beverages, tobacco products

GST Rates on Agricultural Inputs and Machinery

Agricultural inputs and machinery also fall under various GST rates. Here's a detailed breakdown:

S No	Inputs description	GST rate	Examples
1	Seeds for sowing	0%	All seeds for cultivation
2	Farm equipment (manual)	0%	Tools such as ploughs, sickles, and shovels
3	Farm machinery	12%	Power-driven machinery like tractors and harvesters
4	Fertilisers	5%	Most chemical fertilisers
5	Pesticides	18%	Agrochemicals such as pesticides and herbicides

This framework under GST allows farmers to save on taxes for essential tools, fertilisers, and machinery, although some products, like pesticides and machinery, are

subject to tax, which increases input costs.

Practical Implications of GST for Farmers

Market integration: GST has significantly improved interstate trade by removing state-level taxes (CST/octroi) and introducing an e-way bill system. This has facilitated the smoother movement of goods across states.

1. **Reduction in cascading Taxes:** Agricultural goods faced cascading taxes at various points before GST. GST has eliminated these, ensuring farmers and traders don't bear multiple layers of tax, leading to lower costs.
2. **Input Tax Credit (ITC):** Businesses involved in agriculture can avail of ITC (tax paid for inputs) such as fertilisers and farm machinery, reducing overall operational costs. However, farmers selling exempt produce cannot claim ITC.
3. **Increased input costs for farmers:** While most agricultural inputs are exempt or taxed at lower rates, machinery and pesticides are taxed at 12% and 18%, respectively. This scenario increases the burden on farmers.
4. **Compliance issues:** Smaller farmers unregistered under GST continue to face challenges. Their inability to avail of ITC on inputs can be a concern for those buying from registered traders.

Impact on small farmers:

GST does not impact smaller farmers who sell unprocessed goods, but as value-added services like processing and packaging become more prevalent, larger agricultural businesses might find the system costly and complex

The GST regime has significantly simplified the taxation system for India's agricultural sector, ensuring that primary agricultural products remain tax-free. At the same time, processed goods are taxed to contribute to the government's revenue.

The tax system has streamlined interstate trade, reduced cascading taxes, and improved market integration. However, challenges remain for smaller farmers and the agricultural machinery sector.

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