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Impact of GST 2.0 Reforms on Small Scale Agricultural and FMCG Sectors

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Abstract

The Goods and Service Tax (GST) 2.0 is officially announced by the Government of India on 22 September 2025 for streamlining the direct taxation system across the country. It is the upgraded version of GST 1.0 which was implemented from the year 2017. The main aim of the GST 2.0 reforms are to simplify the tax structure, reducing the difficulties in filing the GST returns and bringing more transparency in taxation system to the consumers. In GST 1.0, the Government has categorized the items into five major tax slabs – 0%, 5%, 12%, 18% and 28%. The GST is levied on supply or service of goods or on both. However the multiple rates are likely to increase the administrative complexity as well as create classification disputes. Simplifying these complexity, GST 2.0 was introduced- the two slab system-the most of the GST comes under 5% and 18%. Only the luxury and sin goods fall under the category of 40% of GST slabs. In this article, we will explore the tax exemptions given to the agriculture sector, like packing of the agricultural items, transportation and storage of agricultural related products, also the tax exemptions given to the small scale industries. Finally, the comparative study of the GST 2.0 and GST 1.0 reforms, keeping in-view of agriculture and FMCG sectors is covered in this article. The paper will cover how the GST 2.0 rate cuts will affects the livelihood of the small farmers, village lives and FMCG sector in India.

Key words: GST 2.0 reforms, Agriculture Sector, FMCG sector, reduced tax slabs, subsidies, agricultural bi-products.

Introduction

Taxes come in several ways in the modern economy. Tax categorization is critical for understanding the nature and importance of various taxes. The following are the most often used classification schemes for taxes in today's economic system:

Direct and Indirect Taxes

Specific duties and Ad valorem duties

Progressive, Proportional, Regressive and Degressive taxes

Single Tax and Multiple Tax systems

1. Direct Taxes

Direct taxes are the taxes charged to individuals. These taxes are levied based on tax payer‘s ability to pay measured across various dimensions like income, consumption and wealth. Usually, the burden of taxes cannot be shifted to others [1]

2. Indirect Taxes

Indirect taxes are levied on producing or consuming goods and services. The tax burden can shift to the end consumers through forwarding or backward shifting [1].

3. Specific Duties and Ad valorem Duties

Specific duties are levied per unit sold, whereas ad valorem duties are the responsibilities assessed based on the value-added by the producer [1].

4. Progressive Taxes

When the tax due grows with income in absolute terms, the tax is said to be progressive as a percentage of income.[1].

5. Proportional Taxes

If the tax liability increases in the same proportion as the increase in the taxpayer‘s income, it is known as proportional taxation. Under this system, all payments are taxed at a uniform rate. It is never levied in varying percentages[1].

6. Regressive Taxes

It is regressive taxation when the tax requirement falls in proportion to the increase in the income of the taxpaying population. In this case, the absolute tax liability will, of course, increase. Under this system, the poorer sections of society pay higher taxes than the rich[1].

7. Degressive Taxes

In this case, progression is declining as the tax base increases. The tax rate increases to a specific limit beyond which a uniform rate is charged. Due to this tax, higher-income groups must make fewer sacrifices than lower-income ones.[1].

The GST is the most significant and ambitious indirect tax reform in India's post-independence history. This plan aims to impose a single, consistent national tax on all Indian goods and services. In addition to increasing India's level of national integration and the number of producers liable to taxation, the Goods and Services Tax (GST) has replaced several Central and State levies. Gains in efficiency have a major positive effect on government revenue and GDP. The Center and the States enacting a new tax that covers both goods and services in a large and intricate federal framework may be unique in the history of contemporary international taxes. GST is a comprehensive and continuous tax on goods and services [2].

The Goods and Services Tax (GST) offers substantial and continuous set-off benefits up to the retailer level. In essence, it is merely a tax on value addition at each level, and a provider may use a tax credit system to balance the GST paid on the purchase of goods and services at each level. The final consumer, or end-user, of the commodity or service is ultimately in charge of paying the GST [3].

The burden of all cascading or pyramiding effects of a two indirect tax system has been eliminated with the implementation of GST, which formed a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level. This is the foundation of GST. Only the ultimate customer is subject to GST taxes. As a result, production costs are reduced and the cascade of taxes (tax-on-tax) is avoided [4].

GST 2.0 brought important structural and rate changes that directly and indirectly affect India's agricultural sector. Its impact is **mixed**—with clear benefits in mechanisation and cost reduction, but also some challenges, especially for small farmers and value addition. It has reduced the tax burden on many agricultural inputs such as fertilizers, seeds, and machinery, thereby lowering production costs for farmers. Improved input tax credit mechanisms have benefited agri-businesses and food processing units, encouraging value addition and investment in the sector. Additionally, better logistics and the removal of interstate barriers have ensured faster movement of agricultural produce, reducing wastage and improving market access for farmers. Overall,

GST 2.0 supports the growth of a more organized, cost-efficient, and market-oriented agricultural system [5].

Positive Impact on Agriculture:-

1. Lower cost of inputs (major benefit): 1. GST on fertilizers reduced to **5%** (earlier ~12%)
2. Farm machinery (tractors, harvesters, irrigation systems) reduced to **5%.**
3. Farming becomes cheaper.
4. Encourages mechanisation and productivity**.**
5. Expected rise in farm equipment demand by 8–12%.
6. Fresh fruits, vegetables, grains = 0% GST (exempt**).**
7. GST 2.0 reduced slabs mainly **to** 5% and 18%.
8. Easier compliance and fewer disputes.
9. GST removed inter-state barriers.
10. Processed food taxed moderately (5–12%).

Negative Impact / Challenges:-

1. Tax on value addition discourages farmers. Raw produce = 0% GST**,** Processed/packaged = 5% GST, so farmers avoid grading, packaging, processing and this will limit the income growth. Higher cost of agri-services, Warehousing, cold storage, logistics often taxed up to 12–18%.

2. Working capital issues for agri-business, Delays in GST refunds (especially exporters) leads to Cash flow problems in peak seasons [6].

GST 2.0 has significantly benefited the FMCG sector by simplifying the overall tax structure and reducing complexities in compliance. With fewer tax slabs and clearer classifications, companies can now manage pricing, invoicing, and tax filing more efficiently. This has reduced administrative costs and minimized disputes, allowing major players like Hindustan Unilever and ITC Limited to focus more on business expansion rather than regulatory challenges [7].

Another key advantage is the reduction in tax rates on essential FMCG products, which has led to lower prices for consumers. This price reduction has increased affordability, especially in rural and price-sensitive markets, thereby boosting demand and consumption. As a result, FMCG companies have experienced higher sales volumes, enabling them to expand their distribution networks and strengthen their market presence.

Furthermore, GST 2.0 has improved supply chain efficiency by eliminating interstate barriers and reducing logistics delays. Faster transportation and better inventory management have lowered operational costs and reduced wastage. This has helped FMCG companies deliver products more quickly and efficiently, contributing to improved profitability and a more streamlined, competitive industry overall [8].

Conclusions

In conclusion, GST 2.0 reforms have had a moderately positive impact on the agricultural sector by streamlining taxation on inputs, improving supply chain efficiency, and reducing logistics costs. Farmers have benefited from better availability of fertilizers, machinery, and services, while agri-related businesses have gained from simplified compliance and input tax credits. However, challenges such as increased costs on certain inputs, limited awareness among small farmers, and compliance difficulties still persist. Overall, GST 2.0 has contributed to a more organized and transparent agricultural ecosystem, but its full benefits will depend on effective implementation and greater inclusion of small and marginal farmers.

In conclusion, the GST 2.0 reforms have had a largely positive impact on the FMCG sector by simplifying the tax structure, reducing the burden on essential goods, and boosting overall consumption. These changes have improved supply chain efficiency, enhanced transparency, and supported business expansion, especially for major players like Hindustan Unilever and ITC Limited. Although the sector faced short-term challenges such as pricing adjustments and compliance issues, the long-term outlook remains strong, with higher demand, better market penetration, and a more organized industry environment driving sustainable growth.

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