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Impact of GST Reforms on the Agriculture and allied Sectors in India

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Abstract

The Goods and Services Tax in India marked a historic transformation in the country's indirect tax system. Implemented on 1 July 2017, GST replaced a complex structure of multiple indirect taxes such as excise duty, service tax; value added tax and entry taxes with a unified tax regime. This reform aimed to create a One Nation, One Tax system, enhancing transparency, efficiency, and ease of doing business. While GST has significantly impacted industries like manufacturing and services, its implications for the agriculture and allied sectors are equally important, given the sector's central role in the Indian economy. The 2025 reforms reduced GST on key agricultural inputs from 12-18 per cent to 5 per cent, potentially lowering cultivation costs by 15-20 per cent and improving farm profitability by 4-8 per cent. However, persistent challenges include elevated compliance costs for small and marginal farmers a structural bias taxing value addition while exempting raw produce, contributing to India's low agricultural processing rate and significant state-level revenue disparities-20 states experienced GST revenue contraction in 2025. The research study highlights that GST has contributed to reducing the cascading effect of taxes, lowering input costs in certain areas and promoting farm mechanization and modernization. Allied sectors such as dairy, fisheries and food processing have also benefited from a more streamlined tax structure and improved logistics. Furthermore, GST has facilitated better market integration, enabling smoother interstate movement of agricultural goods and enhancing farmers' access to wider markets. This study examines the impact of GST reforms on the agriculture and allied sectors in India.

Keywords: GST, Agriculture & allied sectors, India and Reforms

Introduction

Agriculture remains the backbone of India, providing livelihood to a large portion of the population and contributing significantly to Gross Domestic Product, employment and food security. Alongside core agricultural activities, allied sectors such as dairy, fisheries, poultry and forestry play a crucial role in enhancing rural income and economic stability. Historically, the agricultural sector has enjoyed certain tax exemptions due to its socio-economic importance. However, with the implementation of GST, the tax structure surrounding agricultural inputs, machinery, processing and distribution underwent substantial changes.

One of the key features of GST in agriculture is that basic agricultural produce remains largely exempt from taxation, ensuring that the burden does not fall directly on farmers. However, various inputs such as fertilizers, pesticides, machinery, irrigation equipment and services related to transportation and storage fall under different GST slabs. The restructuring of these tax rates has had both positive and negative implications for farmers and agribusinesses. On one hand, reduced GST rates on farm machinery, fertilizers and renewable energy devices have lowered input costs and encouraged modernization. On the other hand, certain inputs and services being taxed have increased compliance requirements and operational complexities.

The allied sectors have also experienced notable changes due to GST reforms. For instance, the dairy sector, fisheries and food processing industries have benefited from reduced tax rates on equipment, packaging and logistics, leading to improved efficiency and competitiveness. The food processing sector, in particular, has gained from a more streamlined tax structure, which has helped in reducing cascading effects and promoting value addition. Similarly, renewable energy applications in agriculture, such as solar-powered irrigation systems, have been encouraged through lower tax rates, contributing to sustainable development.

Another significant impact of GST is on the supply chain and market integration. Prior to GST, the presence of multiple state-level taxes created barriers to the smooth movement of agricultural goods across states. GST has eliminated such barriers, resulting in a unified national market. This has improved logistics efficiency, reduced transportation costs and minimized delays caused by check posts and multiple tax compliances. Consequently, farmers and traders now have better access to wider markets, enhancing price realization and reducing wastage, especially for perishable goods. Despite these advantages, the implementation of GST has also posed certain challenges.

Many small and marginal farmers, as well as small-scale traders, face difficulties in understanding and complying with GST procedures. Issues such as digital literacy, registration requirements and filing returns have created initial hurdles. Moreover, fluctuations in GST rates on certain agricultural inputs and processed goods have sometimes led to uncertainty in pricing and profitability.

Review of Literature

Rana (2024) analyzed the structural impact of GST and found that the reform has simplified the indirect tax system by eliminating multiple taxes, thereby reducing cascading effects and improving market efficiency. However, the study also highlighted that taxation on agricultural inputs such as machinery and fertilizers increased production costs for farmers.

Sarkar (2025) provides a comprehensive review showing that GST has enhanced market integration, transparency, and formalization in agriculture and allied sectors, particularly in food processing and dairy industries.

Objectives of the Study

- To study the impact of GST Reforms in Agriculture and allied sectors in India
- To analysis the agricultural export performance in 2024 to 2025

Research Methodology

This study is a descriptive study of determining the impact of GST reforms on the Indian agriculture and allied sectors. The study is based on secondary data which were collected from different sources like Press Information Bureau, Commission for Agriculture Costs and Prices reports, Ministry of Commerce export statistics, Government of India, websites, academic publications, news papers and journals

Impact of GST on Agriculture Sectors

The GST Reforms in Agriculture Sector in India provides a comparative view of old GST rates and revised GST rates across multiple agriculture-related sectors. The interpretation of this table No.1 clearly shows a broad-based reduction in GST rates, aimed at promoting agricultural growth, reducing costs, and improving farmers' welfare.

Table -1

GST Reforms in Agriculture and allied sectors in India – 2025

Sector	Old GST Rate	New GST Rate
Farm Mechanization		
Tractors (<1800cc)	12%	5%
Tractor components (tires, tubes, pumps etc.)	18%	5%
Sprinklers, drip irrigation, harvesting machinery,	12%	5%

tractor		
Diesel engines(<15HP),Harvesting threshing, compressor	12%	5%
Fertilizer inputs		
Ammonia, sulphuric acid nitric acid (fertilizer raw materials)	18%	5%
Bio-Pesticides& Micronutrients		
12Bio-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%
Logistic &Transport		
Commercial goods vehicles (trucks, vans,ect)	28%	18%
third –party insurance of goods carriage	12%	5%

Source: Press Information Bureau, Government of India

The table 1 presents that the farm mechanization items such as tractors (below 1800cc), tractor components, irrigation systems (sprinklers and drip), and harvesting machinery have experienced a significant GST reduction from 12 per cent to 18 per cent to 5 per cent. This reflects the government's emphasis on modernizing agriculture and making machinery more affordable, thereby increasing productivity. Fertilizer inputs essential raw materials like ammonia, sulphuric acid and nitric acid have seen GST reduced from 18 per cent to 5 per cent. This directly lowers fertilizer production costs, benefiting farmers through cheaper inputs and improved agricultural output. The bio-pesticides and micronutrients have been reduced from 12 per cent to 5 per cent, encouraging the use of eco-friendly and sustainable agricultural practices. This also

promotes better soil health and crop quality. Prepared and preserved vegetables, fruits and nuts now attract only 5 per cent GST instead of 12 per cent. This supports the food processing sector, reduces post-harvest losses and adds value to agricultural produce. Dairy sector products like butter, ghee and milk cans have seen GST reduction from 12 per cent to 5 per cent, which helps dairy farmers by lowering production and storage costs, thereby strengthening the dairy industry. The aquaculture sector prepared and preserved fish has also been reduced from 12 per cent to 5 per cent, encouraging fisheries and allied sectors, which are important sources of rural employment. The solar power-based devices have witnessed a reduction from 12 per cent to 5 per cent, promoting the adoption of renewable energy in agriculture, such as solar irrigation systems, reducing dependency on conventional energy sources. Kendu leaves show a sharp drop from 18 per cent to 5 per cent, benefiting tribal and forest-dependent communities and enhancing their income opportunities. The commercial goods vehicles GST reduced from 28 per cent to 18 per cent, lowering transportation costs. Third-party insurance for goods carriage reduced from 12 per cent to 5 per cent, making logistics more economical.

Impact on Agricultural Exports Performance

The agricultural export performance in 2024-2025 presents key indicators of India's agricultural trade, focusing on total exports, dairy sector exports and the trade deficit. The interpretation of the table No. 2 highlights a positive growth trend in agricultural exports, along with sector-specific performance and external trade challenges.

Table -2

Agricultural export performance in 2024 to 2025

Metric	Value	Change
Total agricultural exports	USD 51.91 billion	+6.47%
Dairy sector exports	-	+54%
India's trade deficit (June 2025)	$18.8.billin	-

Source: Union Ministry of Commerce, Govt. of India

The table 2 shows that total agricultural exports reached USD 51.91 billion, recording a growth of 6.47 per cent. This indicates a steady improvement in India's export performance, driven by increased global demand, diversification of export products, and supportive government policies. It reflects the strengthening of India's position in the global agricultural market. The dairy sector shows a remarkable growth of 54 per cent, which is significantly higher than overall agricultural export growth. India's trade deficit

in June 2025 is reported as $18.8 billion. Despite growth in agricultural exports, the presence of a trade deficit indicates that imports still exceed exports overall.

Conclusion

In conclusion, GST reforms have brought about a mixed yet transformative impact on agriculture and allied sectors in India. While the sector continues to enjoy tax exemptions on primary produce, changes in input taxation, supply chain efficiency and market integration have reshaped the agricultural landscape. The reforms have the potential to promote modernization, reduce inefficiencies, and enhance competitiveness, but their success depends on addressing implementation challenges and ensuring that benefits reach the grassroots level. These GST reforms aim to boost agricultural efficiency, increase farmers' income and strengthen rural economies. The uniform reduction to 5 per cent in most categories indicates a strategic effort to make agriculture more cost-effective, competitive and sustainable in India. Finally, overall findings of this research article are reducing the cost of agricultural inputs, encouraging mechanization and modernization, supporting allied sectors like dairy, fisheries and food processing, promoting sustainable and renewable practices, lowering logistics and transportation expenses in India.

Suggestions

Although the exact export value is not specified, this sharp increase suggests:

- Rising international demand for Indian dairy products
- Improved quality standards and processing
- Expansion into new export markets
- This sector appears to be a major contributor to export growth during this period.

India's trade deficit (June 2025) suggests:

- Continued dependence on imports in certain sectors
- The need to further boost exports to balance trade

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