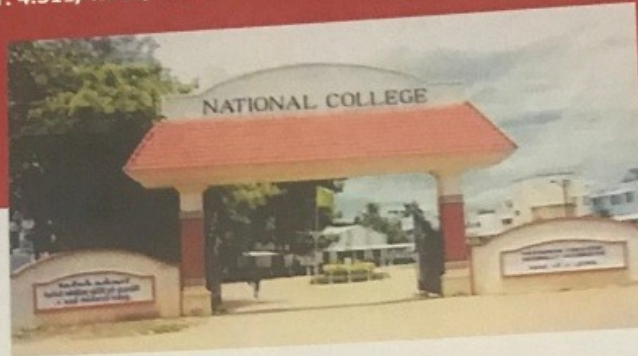


A Journal of
Intercontinental Management Research Consortium

Volume 5, Issue 4 - Special Edition 2 October 2017

Impact Factor: 4.311/4.169/4.236

ISSN:2347-1670/2347-1662/2347-1654



A National Level Seminar
on

GST

“GST and its Impact”
(UGC Autonomous Grant)

4th & 5th October 2017

Organised & Published by

PG & Research Department of Economics
National College (Autonomous)

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Affiliated to Bharathidasan University, Tiruchirappalli - 620001, Tamil Nadu.
Website: www.nct.ac.in

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IMPACT OF GOODS AND SERVICES TAX (GST) IN AGRICULTURE SECTOR

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Abstract

Agricultural sector has been the root of Indian economy and it contributes to around 16% to the GDP. Over 53 percent of the rural livelihood depends on this sector as their primary means of livelihood. Implication of GST looks to have an affirmative impact on Agriculture, as earlier Agricultural products used go through a lot of licensing, various indirect taxes (VAT, excise duty, service tax). GST will improve the transparency, reliability, timeline of supply chain mechanism which will reduce wastage and cost for the farmers. The article examines the impact of GST in agriculture sector.

Keywords: GST, Impacts, GDP, Agricultural Price and Market

Introduction

India is a unique experiment in federal governance with the challenge for ensuring efficient economic development without compromising independence of states. Good and Services Tax (GST) was envisaged to have a simple harmonized tax structure with operational ease leading to a single unified market at national level for goods and services while ensuring that there is no negative revenue impact on the states. On a similar vein, the central sector scheme on National Agricultural Market has been launched to ensure efficiency in agricultural marketing. The underlying principle in both the initiatives is to have a national market facilitating trade and transparency.

Goods and Services Tax

The agricultural sector is the largest contributing sector to the overall Indian GDP. It covers around 16% of Indian GDP. The implementation of GST would have an impact on many sections of the society. One of the major issues faced by the agricultural sector is the transportation of agriculture products across state lines all over India. It is highly probable that GST shall resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods. There are a lot of clarifications which need to be provided for rates for agricultural products. Special reduced rates should be declared for items like tea, coffee, and milk under the GST.



National Agricultural Market

A Central Sector Scheme for promotion of National Agricultural Market has been introduced by the Ministry. The scheme envisages networking of selected markets to a common electronic platform to be developed by the Central Government. The identified regulated markets across the country will be integrated with the common e-platform to provide farmers and traders with access to opportunities for purchase/ sale of agri-commodities at optimal prices in a transparent manner across the country.

The implementation of GST is expected to facilitate the implementation of National Agricultural Market on account of subsuming all kinds of taxes on marketing of agricultural produce as well as it would ease interstate movement of agricultural commodities which would improve marketing efficiency, facilitate development of virtual markets through warehouses and reduce overhead marketing cost. Agricultural commodities are perishable in nature in varying degrees therefore trade is influenced by the time required for transportation. The Economist (Nov 8, 2014) reports that long distance trucks in India are parked for 60 per cent of the time during transportation. The simple uniform tax regime is expected to improve the transportation time, and curtail wastage of precious food.

The present system many times, makes it difficult to implement tax support provided by the centre for an agri-commodity due to heterogeneous policies adopted by the different states. The implementation of GST is expected to bring uniformity across states and centre which would make tax support policy of a particular commodity effective. The ease of availing tax credit under GST regime is expected to boost inter-state trade leading to achieving the objectives of National Agricultural Market. The implications of GST on agricultural marketing need further examination due to its features like business size. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Also, given the exemption of food from central Value Added Tax and 4 per cent Value Added Tax on food item, the GST under a single rate would lead to a doubling of tax burden on food. There is need for more clarity on exemptions available under CGST and SGST.

Impact of GST on Agricultural prices

The terms of trade can also be expected to improve in favour of agriculture vis-avis manufactured goods. The prices of agricultural goods would increase between 0.61 percent and 1.18 percent whereas the overall prices of all manufacturing sector would decline

between 1.22 percent and 2.53 percent. Consequently, the terms of trade will move in favour of agriculture between 1.9 percent and 3.8 percent (GOI, 2012-13).

The increased agricultural prices are expected to improve terms of trade but at the retail level. There is need for an efficient agricultural marketing system ensuring the proportionate increase in the prices at the producers' level as well. The national agricultural market which coincides with the proposed reforms in taxation through GST may help in developing a system ensuring balanced distribution of the value created. GST is predicted to reduce incidence of suppressed sales since billing and payment of tax would be necessary for availing set-off of taxes at each stage. The same principle would apply to transactions between traders in agricultural commodities where there is substantial amount of suppressed sale.

GST Rates on Agriculture

Goods	Old Rate	GST	Diff (%)
Seed, Organic compost without brand	0	0	0
Headpump and its parts	12.5	5	-7.5
Tractor	12.5	12	-.5
chemical fertilizer	12	5	-7
Tractor Tire & Rim	12.5	18	+5.5
Other tractor parts	12.5	18	+5.5
Harvester, Grader	0	12	+12
Insecticide	5.5	18	+11.5

Source: <https://gst.caknowledge.in/gst-rate-india/>

Merits of GST in Agricultural Sector

- 1) GST implementation will play favourable role for National Agricultural Market on merging all the different taxations on agricultural products. Once transportation facilitated, it will improve the marketing efficiency and create access to virtual world.
- 2) GST is vital to enhance the performance of supply chain mechanism in terms of transparency, reliability and timeliness, which in turn will ensure reduction in waste and cost of agricultural produce.
- 3) Agricultural sector has been kept outside from undertaking GST compliances.
- 4) GST reduce the time taken for inter-state transportation.
- 5) Service tax will also be exempted in various services related to agricultural produce.
- 6) An agriculturist would come under non-taxable person.



- 7) All basic agriculture goods (not processed) which are not chargeable under current VAT Laws would not be charged to tax in GST.
- 8) As the exemption under VAT is limited to unprocessed food, the main impact that GST in agriculture would bring is the inflation with currently 4% VAT being increased to 8% on many food items including cereals and grains.

Demerits of GST in Agricultural Sector

- 1) Custom duty will not subsume GST, it will continue to impose on agricultural imports.
- 2) GST is all set to increase the prices of most agricultural inputs like seeds, pesticides and farm equipments resulting into increase in cost of production for farmers.
- 3) Also as GST being single source of tax across nation will not allow farmers any more to take advantage of inter-state price variations. Similarly they will find difficult to get cheaper inputs due to constant pricing across states unlike in previous states laws.
- 4) Fertilizers like Urea, DAT, Potash, will bear a spike tax rate in GST.
- 5) Drip and sprinkler irrigation equipment, which currently attracts a VAT rate of 5%, will be taxed at 18% under GST. Similarly, the tax rate on pesticide sprayers has gone up from 6% to 18% and electric motors from 7% to 12%. Tractors will be taxed at a rate of either 12% or 28%, up from the current 5%.

Conclusion

An increase in the cost of few agricultural products is anticipated due to the rise in inflation index for a brief period. Though, implementation of GST is going to benefit a lot, the farmers/ distributors in the long run as there will a single unified national agriculture market. GST would ensure that farmers in India, who contribute the most to GDP, will be able to sell their produce for the best available price.

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