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Goods and Services Tax and Its Impact on Agricultural Sector with Reference to India

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***Abstract*-- Agricultural Sector had been the root of Indian economy and it contributes to around 17.4 percent to GDP. About 52 percent of the total rural livelihood depends on this sector as their primary means of livelihood, so it was/were important to study the impact of GST on the Agriculture sector. After implementation of GST influence the entire sector in India but agricultural sector more influence than other because about 52 percent population employed in this sector. The average cost of fertilizers, irrigation pumps and tractors had been declined by 2, 5.5 and 5.5% respectively, while the average cost of insecticide had inflated by 5.5%.The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017. Main aim of GST was/were "one nation, one tax". Introduction of GST would also make Indian products competitive in the domestic and international markets. Indian government would also apply an integrated GST that means only Centre could collect GST in case of inter-state trade and commerce and further this tax would be divided between centre and state based on recommendation of GST council advisory body. By merging a large number of Central and State taxes into a single tax. GST was/were expected to significantly ease double taxation and make taxation overall easy for the industries. At the end customer, the most beneficial would be in the reduction in the overall tax burden on goods and services. GST also involves make Indian products most competitive in the domestic and international markets. Good and Services Tax (GST) was predicted to had 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 was/were no negative revenue impact on the states. Hence, in the present paper it was/were being discussed the various disciplines of GST on Agriculture sector and its impact in detail.**

***Keywords*-- GDP, exports, product, Agricultural commodities, GST, VAT, indirect tax.**

I. Introduction

Agriculture was one of the most critical sectors of the Indian economy. Growth and development of agriculture and allied sector directly affects well-being of people at large, rural prosperity and employment and forms an important resource base for a number of agro-based industries and agro-services.

The agriculture sector in India had undergone significant structural changes in the form of decrease in share of GDP from 30 per cent in 1990-91 to 17.4 in 2015-16 indicating a shift from the traditional agrarian economy towards a service dominated one. However, this decrease in agriculture's contribution to GDP had not been accompanied by a matching reduction in the share of agriculture in employment. About 52 per cent of the total workforce was/were still employed by the farm sector which makes more than half of the Indian population dependent on agriculture for sustenance (NSS 66th Round). Value addition in agriculture, thus, holds huge potential for enhancing the living standard of majority of the people. Improved agriculture marketing offers a major opportunity to achieve this objective. Goods and service tax would had both negative and positive impact on agriculture. Goods and service tax would had both negative and positive impact on agriculture. The price of agricultural commodities would go down, as previously the agricultural commodities was/were charged with different prices within the state, inter-state and in overall country. GST would lead to efficient allocation of resources. Terms of trade move in the favour of Agriculture as compared to manufacturing sector. This would increase prices of some commodities like milk, tea, etc. thus, boon the millions of farmers in India. In nut shell they could say that it would effect directly and indirectly to agriculture sector. Goods and Service Tax (GST) was/were an indirect tax the sale of goods and services. GST was/were levied at every step in the production process, but was/were refunded to all parties in the chain of production other than the final consumer. Goods and services was/were divided into five tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%.This was modified on 22nd September 2025 as GST 2.0. and divided into 4 tax slabs for collection of tax- 0%, 5%, 18%, 40%. The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market.

From the consumer point of view the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which was earlier estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would had a boosting impact on economic growth.

Objectives of the Study:

- To analyze the impact of Goods and Services Tax (GST) on the agricultural sector in India.
- To study the impact of GST on farmers' income and profitability
- To identify the challenges faced by farmers and traders due to GST implementation.
- To analyze the role of GST in reducing tax cascading and improving transparency in the agricultural sector.

II. Review Of Literature

Goods and Services Tax (GST) in India in July 2017 marked a significant reform in the country's indirect taxation system. Several researchers had examined its implications on the agricultural sector from different perspectives, including input costs, farmer income, market efficiency, and supply.

According to Singh et al. (2018), GST brought agriculture under a unified tax framework while keeping most agricultural services exempt, thereby attempting to balance tax efficiency with farmer welfare.

Patel and Sahu (2025) observed that farmers bear indirect tax burdens through inputs like fertilizers, pesticides, and machinery, which influence overall farming costs and income levels.

These studies indicate that while GST simplified taxation, its mixed impact on input prices had implications for cost of cultivation and profitability.

Studies indicate that GST had improved logistics and reduced inter-state trade barriers, benefiting agricultural trade and distribution

A systematic literature review by Maheshwari and Mani (2023) concluded that GST had had a generally by improving market efficiency and reducing tax cascading

III. Methodology

Secondary data is collected from various reliable sources such as: Government reports and publications. Research journals and articles. Books, newspapers, and magazines. Reports from institutions like Ministry of Agriculture and GST Council. Online databases and official websites.

Need for the Study:

The agricultural sector is the backbone of the Indian economy, employing a large proportion of the population and contributing significantly to national income. This study is needed to understand how GST affects the agricultural sector, particularly in terms of input costs, farmer income, and overall productivity. Many farmers, especially small and marginal ones, are unaware of the indirect implications of GST on their farming activities. Therefore, there is a need to examine whether GST has increased or reduced the financial burden on farmers. The study is also necessary to evaluate the impact of GST on agro-based industries and rural economies, as these sectors are closely linked with agriculture. In conclusion, the need for this study arises from the necessity to critically analyze the mixed effects of GST on agriculture and to provide suggestions for making the tax system more farmer-friendly and growth-oriented.

Goods and Services Tax:

GST stands for 'Goods and Services Tax' and was/were proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services . GST was/were an idea on which all the indirect taxes (by central government, state government and custom duties) would be subsumed into a common single GST. The proposed GST was/were expected to streamline the indirect tax regime. It contains all indirect taxes levied on goods, including central and state-level taxes. Act as an improvement on the VAT system, a uniform GST was/were expected to create a seamless national market. GST seems to be more comprehensive, compliable, simple, harmonized and development oriented tax system. Main aim of GST was/were 'one nation, one tax'. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which was/were currently estimated to be around 25-30 per cent (Central Board of Excise and Custom). Introduction of GST would also make Indian products competitive in the domestic and international markets.

Goods and Services Tax had been proposed to introduce a single tax on supply of goods and services or both, by admitting all the central indirect taxes (excise duty, countervailing duty and service tax) and state indirect taxes (VAT, luxury tax, entry tax, etc). It seems to be more comprehensive, compliable, simple, harmonized and development oriented tax system. The GST, unlike the traditional tax system, it was/were allowed the supplier at each stage to set-off the taxes paid at previous levels in the supply chain. It was essentially a value added tax at each level.

The supply chain at the terminal level the customer levied by the GST by the last dealer. The following beneficial things were noticed over the conventional tax system. The inception of unique tax system, it was/were expected to subsuming the taxes on agri-products and its commodities which facilitate more flexibility to farmers in exporting business. The transportation was/were one of the major challenge in agricultural commodities because they was/were 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 was/were also understood that there was no uniformity among all states for the implementation of GST of agro-commodities.

IV. GST Structure In Agriculture

Exemptions: Most fresh agricultural produce (fruits, vegetables, milk, grains) is exempt from GST

Tax slabs:

0% → Raw produce

5% → Semi-processed goods

12–18% → Processed & packaged goods

Agricultural services like cultivation, harvesting, and storage are mostly exempt.

Arguments from different States:

The governments of Madhya Pradesh, Chhattisgarh and Tamil Nadu arguing that the information technology systems and the administrative infrastructure so needed would not be ready by April 2010 to implement GST. Some states fear that if the uniform tax rate was/were lower than their existing rates, it would hit their tax kitty. The government believes that dual GST would lead to better revenue collection for States. Backward and less-developed States could see a fall in tax collections. GST could see better revenue collection for some states as the consumption of goods and services would rise. However, states had sought assurances that their existing revenues would be protected.

Impact of GST on Agricultural Sector:

GST is essential to improve the transparency, reliability, timeline of supply chain mechanism. A better supply chain mechanism would ensure a reduction in wastage and cost for the farmers/retailers. GST would also help in reducing the cost of heavy machinery required for producing agricultural commodities.

Under the model GST law, dairy farming, poultry farming, and stock breeding are kept out of the definition of agriculture. Therefore these will be taxable under the GST.

Fertilizers an important element of agriculture was previously taxed at 6% (1% Excise + 5% VAT). In the GST regime, the tax on fertilizers has been increased to 12%. The same impact is on Tractors. Wavier on the manufacture of Tractors is removed and GST of 12% has been imposed. This is beneficial as now the manufacturers will be able to claim Input Tax Credit.

Agricultural products were always subject to diversity in the taxation rates so a single rate of goods and service tax would benefit the national agricultural market and help the farmers and traders to sell their products in any part of the country and receive the best price for their product.

The implementation of GST is expected to facilitate the implementation of National Agricultural Market on account of subsuming all kinds of taxes/cess 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.

V. Positive Impacts

Improved Efficiency:

GST had helped to improve the efficiency of the agriculture sector by reducing the time and cost involved in tax compliance and transportation

Streamlined Supply Chain:

The introduction of GST had helped to streamline the supply chain in the agriculture sector by reducing the number of checkpoints and improving the speed of transportation.

Increased Transparency:

GST had improved transparency in agriculture sector by bringing more players under the tax net. This had helped to reduce tax evasion and increase tax compliance.

Unified National Market:

GST removed inter-state barriers, enabling free movement of agricultural goods across India.

Transparency and Formalization:

He said that GST promotes transparency and reduces tax evasion, encouraging organized agricultural trade

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Boost to Food Processing Sector:

GST supports value addition and agro-based industries by creating a structured tax system.

VI. Negative Impacts

Complex Procedures:

The complex GST procedures and compliance requirements had led to confusion and increased compliance costs for farmers and small traders.

Lack of Clarity:

There was/were still a lack of clarity regarding the applicability of GST on some agriculture products and services. This was/were led to uncertainty and confusion among farmers and traders.

Higher Costs:

The increase in tax rates on some items had led to higher costs for farmers and traders in the agriculture sector. This had had an adverse impact on their profitability.

Burden on Agricultural Transport and Logistics:

Although GST improved logistics in some ways that was/were : Transportation services might attract 5% GST. Storage, warehousing, and cold storage might also involve taxation in certain cases.

No Input Tax Credit(ITC) Benefits to Farmers:

GST works on the principle of Input Tax Credit(ITC) but most agricultural produce was/were exempt from GST.Farmers selling exempt goods cannot claim ITC.

Increase in Cost of Agricultural Inputs:

One of the major drawbacks of the Goods and Services Tax system introduced under Goods and Services Tax Council the increase in the cost of agricultural inputs.

Fertilizers was/were taxed at around 5% GST.

Pesticides and insecticides at 18%

Tractors and farm machinery at 12-18%.

VII. Conclusion

Agriculture was backbone of Countries economy and millions of farmers was/were directly or indirectly depend on farming and they primarily belongs to low income families and below poverty line.

In addition the life of the farmers was/were always depends on the Weather conditions which always not favour the crops cycles and makes agriculture as gambling business and tests the fate of farmer. It could be said from the above that GST was/were expected to had both positive and negative impact on the farm sector. In case of milk, Tea and Fertilizer it was/were expected to show a negative impact. These was/were the most popular commodities in India. In case of milk there was/were no tax to procure milk from farmer, when GST would be implemented it leads to increase the milk prices and this would not be welcomed by consumers. GST had brought structural reforms in India's agricultural sector by creating a unified market and improving efficiency. However, its benefits was/were unevenly distributed. While agribusiness firms gain advantages, small and marginal farmers face challenges due to higher input costs and limited tax benefits. Therefore, policy adjustments was/were necessary to make GST more farmer-friendly and inclusive. An increase in the cost of few agricultural products was/were anticipated due to the rise in inflation index for a brief period. Though, implementation of GST was/were going to benefit a lot, the farmers/ distributors in the long run as there would a single unified national agriculture market. GST would ensure that farmers in India who contribute the most to GDP, would be able to sell their produce for the best available price. t. GST was/were essential to improve the transparency, reliability, timeline of supply chain mechanism. A better supply chain mechanism would ensure a reduction in wastage and cost for the farmers/retailers. But yes in some cases GST rate hikes too much which becomes a burden for the small scale farmers.

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