

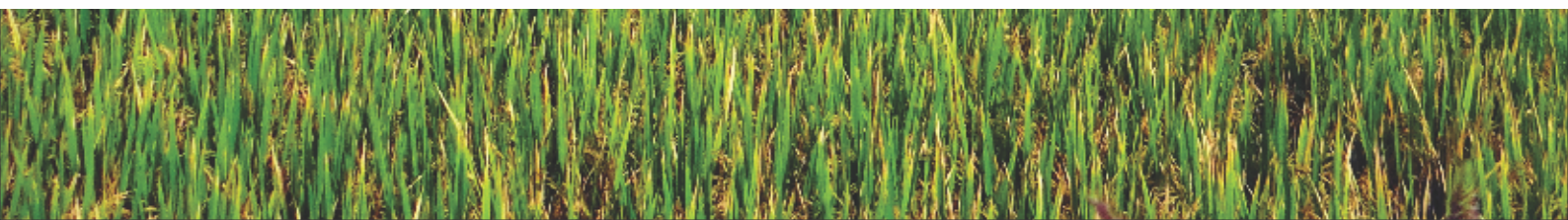


भारतीय कृषि एवं खाद्य परिषद्
INDIAN COUNCIL OF FOOD AND AGRICULTURE

IMPLICATION OF GST ON AGRI – INPUT MARKET IN INDIA



July 2017 | Survey Report



FORWARD

Agriculture is one of the primary employment sectors to millions across the country and becomes vital for the country's growth. India ranks third in farm and agriculture output globally. It is also the largest producer, consumer and exporter of spices and related products. Agricultural exports constitute 10% of the country's exports, and are the fourth-largest exported principal commodity. India is also among the top producers of wheat, rice, sugarcane and fresh fruits. Thus, a major taxation reform like implementation of GST will have an effect on the agricultural sector of Indian Economy.

Basically at a broad sectoral level, we can divide the sector into two segments, namely, agricultural produce and processed foods separately because implications are quite different for these two. In the agricultural produce, conventionally we have seen that if there is any rate above 2%, unscrupulous players tend to evade tax and some states had VAT levels above 2%.

Consequently, there was no level playing field between unscrupulous players who are evading tax and more organized players and the entire agricultural supply chain remained very fragmented with a number of intermediaries with all the agricultural produce now getting at zero rates.

GST will have both positive and negative effect on agriculture. GST is expected to create a business friendly environment, as price level and inflation rate may go down. Goods and Service tax has single tax structure as it leads to unified market at national level for goods and services. The implementation of GST is expected to bring uniformity across states and centre which would make tax support policy of a particular commodity effective. GST was predicted 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. This survey report is helpful in bringing out the light on impact of GST on Agriculture Sector, with special reference to Indian Agri – Input market.

ABSTRACT

After more than a decade of intense discussion and debate, finally, GST is becoming a reality. Although, in its current form, it is not the perfect GST as originally envisaged, it is being lauded as one of the most transformational reforms since 1991. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview. The implementation of GST will have its impact on every sector, and quite large at the Indian Agricultural Sector as it accounts for approximately 16% of the national GDP and employs around 60% of the population. GST will improve the transparency, reliability, timeline of supply chain mechanism for the agri – products, which have various interpretations. This survey report tries to explore all the possible impacts of the GST on the agri – input market.

Agri inputs are important for agriculture and their timely supply is vital for enhancing crop productivity. Agri inputs include a variety of products like, seeds, fertilizers, pesticides etc., for this survey a range of agri inputs were taken into consideration. As per proposed GST regime, the GoI has decided different rate for different categories of inputs like seeds (exempted), fertilizers (12%), tractors (12%), crop protection (18%) etc. depriving the industry of equal treatment vis-à-vis other agricultural inputs.

This change in tax regime will consequently result in changes in price structure of inputs, manufacturer and dealer margin, imports and exports and ultimately farmers' income and country's economy. Overall, it seems, from the inputs side, that the cost of cultivation for farmers may increase marginally, which in turn may put mild pressure on agri-prices. But the story is not complete unless we see the taxation structure on agri-output prices.

INTRODUCTION

Presently, the tax structure of India is very complex. Looking to the global developments and tax structure of developed countries, GST is the need of the hour and will be the biggest reform in Indian taxation since 1947.

Clause 366(12A) of the Constitution Bill defines GST as “goods and services tax” means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines “Services” means anything other than Goods. Thus it can be said that GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview.

Amidst economic crisis across the globe, India has posed as a beacon of hope with ambitious growth targets, supported by slew of strategic missions like ‘Make in India’, ‘Digital India’, etc. Goods and Services Tax (GST) is expected to provide the much needed stimulant for economic growth in India by transforming the existing basis of indirect taxation towards free flow of goods and services within the economy and also eliminating the cascading effect of tax on tax. In view of the important role that India is expected to play in the world economy in the years to come, the expectation of GST being introduced is high not only within the country, but also in neighboring countries and in developed economies of the world.

The implementation of GST will affect the working of every sector of the Indian economy, including the most vital and vulnerable component of the Indian Economy, i.e. Agriculture Sector, which contributes approximately 16% to the national GDP. Agriculture in all fields always had the soft corner because of which exemptions from taxes as relief has always been provided to this industry and indirect tax is no exception with GST following the same.

- All basic agriculture goods (not processed) which are not chargeable under current VAT Laws would not be charged to tax in GST.
- Service tax also exempts several services in relation to agricultural produce.

However, there is an exemption in the indirect tax in the agricultural sector but, current 4% VAT will increase to 8% on many food items including cereals and grains as the exemption under VAT is limited to unprocessed food.

Thus, there is a need to explore the possible implications of the GST on the Indian Agricultural Sector. This study will mainly focus on the agri – inputs segment of the agricultural sector of the economy.





OBJECTIVES

The major objectives of the study are:

- To evaluate the opinion of various operators in the agri – input market on the impact of the implementation of GST.
- To have an opinion on the ideal GST Rates for various segments of the agri – inputs market, as the GST Rate list is already disclosed.
- To understand the implication of GST on the trade of agri – inputs.

RESEARCH METHODOLOGY

A qualitative evaluation shall be utilized for this research project leveraging subjective methods such as online surveys to collect substantive and relevant data. These surveys were conducted with various stakeholders of the companies operating in the Indian Agricultural Market along with high rank government officials, dignitaries, Researchers and etc.

Such a qualitative approach is valuable here due to the varying experiences and viewpoints of the individuals regarding the impact of GST on the agricultural market. Upon collecting the qualitative data derived from the said surveys, careful analysis is done (utilizing Microsoft Excel) to derive a concrete results relating to various aspects of the Indian agri – input market.

Total of 2100 individuals were approached for the study, of which 300 responses were considered for this study.

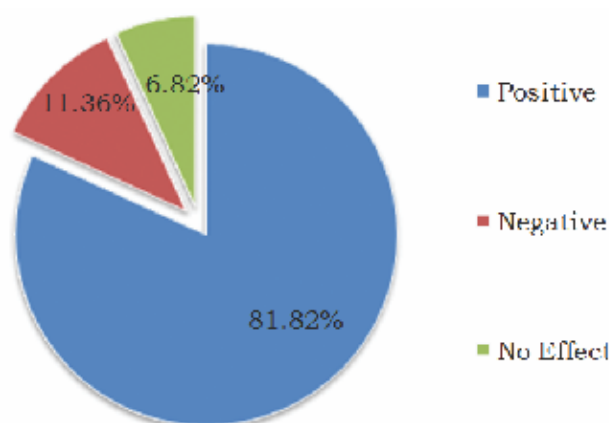
SURVEY RESULTS

Impact of GST on the growth of Indian Economy

There are much apprehension relating to proposed GST regime regarding the growth in Indian Economy and its effects thereof. As we know in Indian economy, destination based taxation requires high compliance cost and efficient administration. Taxation, both direct and indirect plays an important role in promoting economic growth as well as equitable distribution.

According to the survey conducted, 81.82% of the total respondents opine that GST will impact the Indian Economy, positively, while 11.36% of the total respondents feel that it may affect the Indian Economy negatively. However, 6.82% respondents think that there will be no effect on the Indian Economy.

Exhibit 1: Responses to the Question “How will GST impact the growth of Indian Economy?”



GST will increase the transparency at each level of supply chain of every product/service/item and will make the tax regime simpler. According to experts, single window taxation shall smoothen and ease the production process and growth as well as accounted trading and transactions resulting in positive economic growth. Also, the overall rise in the tax revenue of the government that shall lead to more money in the hands of the government due to which, government expenditure shall go up leading to overall economic growth. Moreover, black economy will have to become compliant after the implementation of GST.

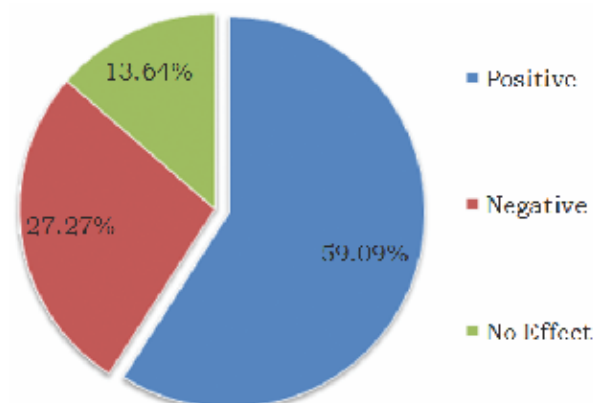
However, respondents who think that it may have negative effect reasoned their statement by quoting that the cost of change is very high, enforcement in the interim period may lead to further slowdown in growth. At least one year's grace in implementation will be needed for existing implementation to change once the deadline sets in. Long term impacts may be the same as implementation of VAT when it was brought to the Indian economy. However, inflationary pressure may bring it to the negative.

Influence of GST on Indian agricultural market

As per the Model GST law “agriculture” with all its grammatical variations and cognate expressions, includes floriculture, horticulture, sericulture, the raising of crops, grass or garden produce and also grazing, but does not include dairy farming, poultry farming, stock breeding, the mere cutting of wood or grass, gathering of fruit, raising of man-made forest or rearing of seedlings or plants. Therefore, these will be taxable under the GST. According to the experts, 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 as the exemption under VAT is limited to unprocessed food. The most affected from the inflation would be the consumers living below the poverty line.

According to the survey conducted, approximately 60% of the respondents think that GST will have a positive impact on the Indian agricultural sector, however, 27% of the total respondents think the other way round.

Exhibit 2: Responses to the Question “How will GST influence the Indian Agricultural Sector?”



Wider coverage activity under tax fold is expected to enable reduction in unit cost of goods and services, which will result in positive impact on agricultural sector. Moreover, farmers are likely to get better prices of their crops due to single tax rate across the country, which will enable them to get market access with wide areas.

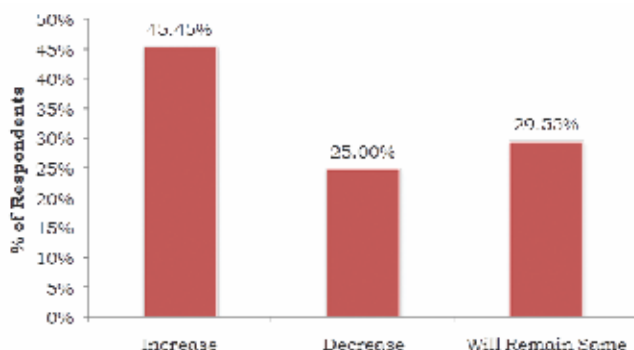
However, respondents with the view of negative impact on the agricultural sector of GST articulated their statement by stating that it will increase the input cost for agricultural products as well as agricultural machinery price is expected to rise by 4%-6% as according to the current tax system, only 6% VAT was applicable. This will be a significant negative for farmers as cost of their input either in terms of investment in machines or in terms of hiring the machine will rise significantly, thereby making their costs higher than current price.

Effect of GST on the manufacturing cost of Agri – inputs

Manufacturing cost is the major component for any industry as if manufacturing cost rises, the price of the end product rises. This is because, manufacturers pass on the additional cost to the consumers. However, with the implication of GST, agricultural sector is expected to benefit, while the manufacturing cost of the agri – inputs are likely to rise.

The following exhibit depicts the responses of the respondents for effect of GST on the manufacturing cost of agri – inputs.

Exhibit 3: Responses to the Question “How will GST affect the manufacturing cost of agri – inputs?”



Major proportion of respondents opined that the manufacturing cost of the agri – inputs will increase as agricultural machinery will become costlier thus, resulting in the spare parts being costly. Also, current plan of enhancing tax in the form of GST be it chemical fertilizers, bio fertilizers from Zero to 12 %, or 18 %

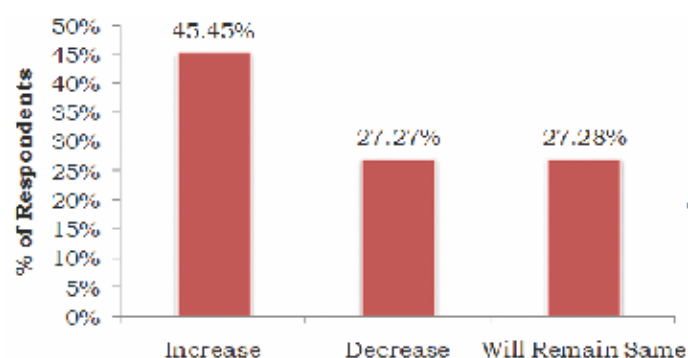
will impact increase in prices of agri – inputs.

However, 25% of the respondents, who had a view point that the cost of manufacturing would decline reasoned their statement by pointing out that raw material required for manufacturing is likely to be available at less cost along with the decline in the cost of the agricultural equipments

Effect of GST on the retail price of agri – inputs

The retail price of the agri – inputs are directly affected by the manufacturing cost of the products. Thus, if manufacturing cost increases, the retail price of the product also increases and vice – versa. According to experts’ opinion, retail price will increase for states where the products were already exempted (example Irrigation Systems in Rajasthan/Haryana/Gujarat), on the other hand other states were charging VAT.

Exhibit 4: Responses to the Question “How GST will affect the retail price of agri – inputs?”



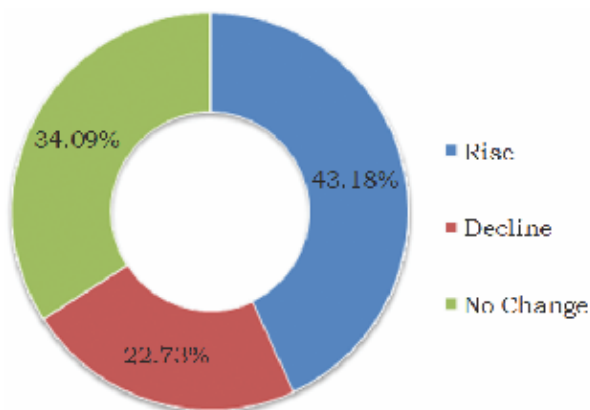
Thus, 45% of the respondents, who think that retail price, would increase in the future, after the implementation of GST, articulated that the rise in the retail price would be 3%-5% as inputs or associated activities that are taxable or will come under tax, in effect agri – input products will incur some amount of tax which will be passed on to the consumer. Also, some had a view that retail price may go up for shorter period of time as earlier most of agri – inputs were out of tax bracket, while under this new tax regime few inputs will be taxed.

Respondents with a view point that the retail price of the agri – input products would decline justified their statement by stating that one time taxation on the manufactured/value added inputs and direct exemption of many of the inputs related to agriculture production shall lower the cost. Moreover, transparent tax system and better tax compliance will lead reduction in unit manufacturing cost; in turn will enable the retailer to sell agri – inputs at low price.

Effect of implementation for agri – inputs on the agricultural growth

The implementation of GST will give more relief to agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in agriculture.

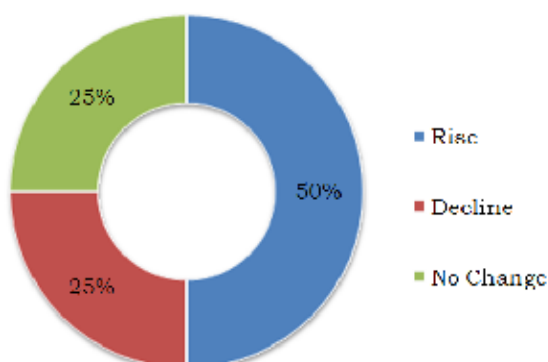
More than 40% of the respondents believed that implementation of the GST for agri – inputs will rise the agricultural sector growth rate due to various reasons such as low cost of inputs, production at lower costs and free mobility of agricultural produce across states as per need and demand.



Effect of GST implementation on the farmer's profitability

Farmers' profitability largely depends upon tax structure for the inputs unitized by them. This is because it determines the cost of production for the farmers. Lower the cost of production, higher are the possibilities of him getting larger profits.

Exhibit 6: Responses to the Question "How will GST implementation have an effect on the farmers' profitability?"



50% of

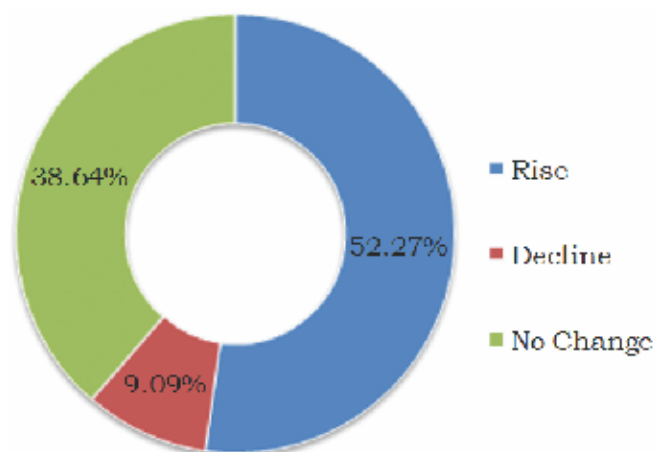
the respondents think that the profitability of farmers will rise after the implementation of GST on July 1, 2017. This may be attributable to many services related to agriculture being exempted along with timely availability of agri-inputs, which may ease the production front and removal of movement restriction of agri-outputs. Moreover, access to single market in whole nation may make better earning situation for farmers.

However, the 25% respondents, according to whom, the level of profitability would decline for farmers, reasoned their view point by stating that with increase in cost of inputs, farmers' cost of producing farm produce will go up against price they get in market which in a way upset cost-benefit ratio for them.

Effect of GST on the export market of agri – inputs

The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

Exhibit 7: Responses to the Question "How will GST affect the export market of agri – inputs?"



Effect of GST on the imports of agri – inputs in the country

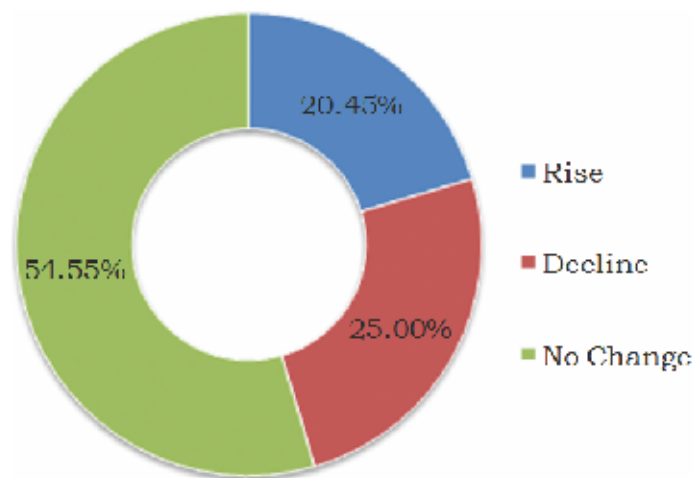
In general, with Constitutional Amendments, both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in

case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

With reference to the agri – inputs, major proportion of experts opine that there will be no change in the imports as imports of product is largely associated with availability and quality of products, which do not have impact due to GST.

However, 25% of respondents feel that there will be a decline in the imports of the agri – inputs as cost of manufacturing may decline due to reduced tax structure on raw materials. Nonetheless, approximately 20% of the respondents think that there will be an increase in the imports of the agri – inputs as import duty in total will be GST adjustable.

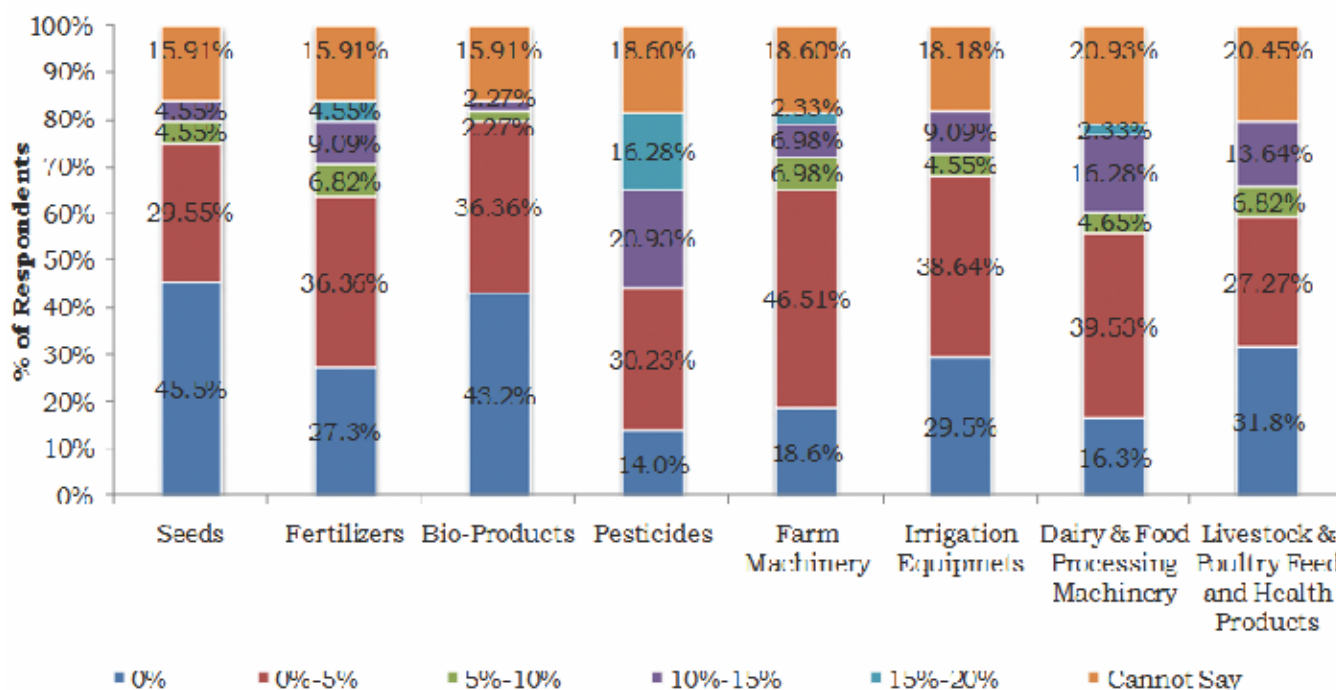
Exhibit 8: Responses to the Question “How will GST affect the imports of agri – inputs in the country?”



Ideal GST rates for various agri – inputs

The GST Council has broadly approved the GST rates for goods at nil rate, 5%, 12%, 18% and 28% to be levied on certain goods. However, in the opinion of the experts, the GST rates can be revised as per the following exhibit.

Exhibit 9: Responses to the Question “What in your opinion should be the ideal GST rates for agri - inputs?”

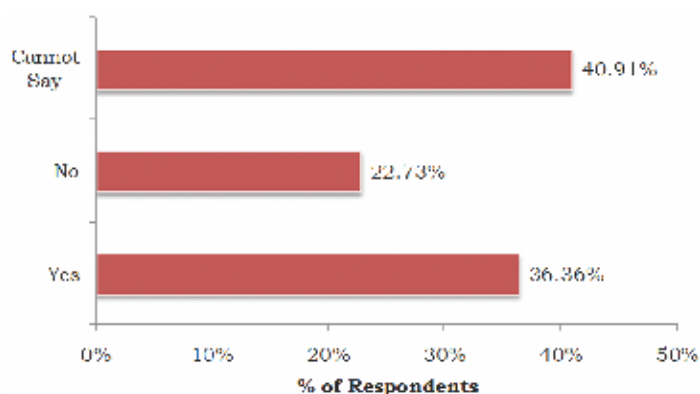


GST implementation and pm’s vision of doubling farmer’s income by 2022

One country one tax system is the prime objective of GST; however, it may have an impact on the PM’s Vision of Doubling Farmer’s Income by 2022 due to changes in the tax rates at various levels of supply chain.

Approximately 40% of the respondents were not able to relate both of them as there are various components which need to be taken into account while finding a correlation between both of them. However, 36% of the respondents feel that GST is in line with the PM’s Vision of Doubling Farmer’s Income by 2022 as according to them, broader tax base, greater tax compliance and transparent tax system are pre – requisites for realism of PM’s vision of doubling farmers’ income by 2022.

Exhibit 10: Responses to the Question “Is GST implementation in line with the PM's Vision of Doubling Farmers' Income by 2022?”



Nonetheless, approximately 23% of the respondents think that GST is not in line with the PM's Vision of Doubling Farmer's Income by 2022. This is attributed to various reasons, such as, due to higher rate of GST as compared to the tax being charged currently on the agricultural equipment, significant challenge is expected for the farmers towards their move for mechanization and increase in productivity. This will be overall negative for the farmer.

CONCLUSION

Agricultural sector is based on perishable items. And as foreseen in the Goods and Services Tax regime, if the supply chain evolves into something better, improving quick movement of goods, it will allow less food to be wasted. The profit in turn will go the farmers and the

retailers, too. This will happen because interstate transportation of goods, here perishable food, will be easier.

However, as the farm sector will remain largely exempt from GST, any input taxes suffered on inputs used in the farm sector such as seeds, fertilizers, pesticides, tractors etc, will remain blocked and contribute to increase in prices of farm output. Farm output prices are controlled by market forces and the farmer has little control. As the input price rises and output price remains stagnant, the farmer will have no option but to absorb the cost, thus increasing his burden. Indian farmer is already reeling under tremendous pressure from many ends and the increased burden of taxes will create a crater in his income. If somehow, the output prices increase, the nation will suffer as the food prices will go up, thus creating trouble for the common man.

The government needs to be very cautious in implementing the new tax system and should have extra concern towards the farmers. Even a slightest burden on farmers will result in manifold distress and misery, they being the most vulnerable community of the country. However, a smooth GST regime can break inter-state barriers on movement and facilitate direct linkage between processors and farmers. This can transform the operations of mandis too if other necessary reforms to free up agricultural markets are undertaken.





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Indian Council of Food and Agriculture (ICFA) is a national level platform in India with a mandate for policy research, advocacy and enterprise development in food and agriculture sector. Besides, ICFA is engaged in business and trade facilitation, farm services and providing a platform for global partnerships. ICFA emerged out of the long felt need for a comprehensive approach to address issues in food and agriculture sector and tapping of emerging global business opportunities overcoming compartmentalized approach and absence of coordination and dialogue among various stake-holders. Currently in India, various stakeholders in the food and agriculture sector like the national and state governments, policy makers, research and academic bodies, extension agencies, value addition industry, NGOs, financial bodies, developmental institutions and farmers groups think in silos, often with contradictory approaches for the same ultimate cause. ICFA aims to foster convergence and greater communication between different stakeholders and work towards bringing India aggressively into the loop of global trade and commerce. Headquartered in New Delhi, India, ICFA has drawn in the vast experience and expertise of a number of professionals cutting across various subsectors in the food and agriculture sector and has constituted a number of working groups and national councils to represent the interests of various stakeholders. It has also incorporated several state specific working groups.

DISCLAIMER

This report has been prepared from various public sources and interaction with stakeholders, the information thus received from these sources is believed to be reliable. This report considers data from various sources with a cut-off date of June 2017.

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