Will Goods and Services Tax help in the doubling of farm income?

Posted at: 17/12/2018

Will Goods and Services Tax help in the doubling of farm income?- Issues such as levy on warehousing, agri-project imports pose a challenge

- With the introduction of Goods and Services Tax (GST) — India's biggest reform in the tax structure — the government has succeeded in moving a step closer towards making the country a unified common market, leading the nation's economy towards growth and sustainability.
- The agricultural sector continues to remain the largest contributing sector to the GDP with a share of 16%.
- The onset of GST in the sector is encouraging industry players/stakeholders to go beyond the boundaries of cities and States and create one-of-a-kind national market for agricultural goods with a clear and hassle-free supply chain which would lead to the free movement of agri-commodities across India.
- Further, the promotion of the National Agriculture Market (NAM) by the Centre in accordance with the GST has created scope for increased transparency and impartial trade of agri-commodities without the restrictions of multiple taxation.

Agricultural produce

- Considering the perishable nature of the agri-commodities, improved supply chain mechanism due to GST would re-write the scope of profitability for farmers.
- With the exemption on GST on storage and warehousing of agricultural produce, the new tax regime has reduced the tax burden on the farming sector and created an opportunity for farmers to sell the produce at the best available price in the Indian market without State barriers and reduce the imminent storage-related food loss, that goes a long way in helping realise the government's vision to double farmer incomes.

Doubling tax burden

- However, the application of GST to agri-commodities will have a significant impact on the population that lives under the subsistence level.
- While large corporates in the agri-processing sector have begun to adapt to the new regime, the grassroot players are still adversely impacted.
- While most agri-warehousing companies rent warehouses from small owners of the property, a majority of such owners remain unregistered suppliers.
- However, such renting of warehouses by agencies engaged in providing storage and warehousing services is liable to GST under a reverse charge at the rate of 18%.
- The tax burden will inevitably be passed on to farmers in the form of higher price for storing goods in the absence of any viable alternative for warehouse agencies, thereby increasing the cost of the food produce.
- The GST rates on food consumed by the common man should be subject to the lowest rates to ensure that there is reduced impact of inflation on the household budget of the common man.
- Another challenge lies ahead for companies engaged in the creation of modern agriculture storage infrastructure like silos and cold storages.
- Earlier, imports of project equipment used to create facilities to store agriculture commodities — like mechanised handling systems and pallet racking systems — attracted only a basic customs duty of 5% and were specifically exempt from countervailing duty and special additional duty.
- Unless corrective measures are immediately enforced to address these issues, farmers will see a rise in storage costs and the burden on the supply chain will eventually increase, thereby affecting consumers.

The Hindu