GST: ITS IMPLICATIONS ON NATIONAL AGRICULTURAL MARKET

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 (GST)

Goods and Services Tax proposes to introduce a single tax on supply of goods and services or both, by amalgamating all the central indirect taxes (excise duty, countervailing duty and service tax) and state indirect taxes (VAT, luxury tax, entry tax, octroi, etc). GST seems to be more comprehensive, compliable, simple, harmonized and development oriented tax system. The GST, unlike the present system, will allow the supplier at each stage to set-off the taxes paid at previous levels in the supply chain. It is essentially a tax on value added at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages (GOI).

Benefits of GST

The uniformity in tax rates and procedures across the country will lead to various benefits for the economy and the consumers.

1. Unified market - the amalgamation of various taxes into one will simplify the procedure and help in evolution of a common market at national level
2. Increase in tax revenue is projected due to better compliance and broader tax base
3. Increase in exports due to cost effective production
4. The burden of tax on goods is expected to fall under GST leading to benefits to the consumers
5. The GDP is predicted to grow in the range of 0.9 – 1.7 percent annually

Why is it taking so long?

The states fear to lose their power to impose and collect taxes and loss of revenue. The extended period of negotiations and deliberations helped in putting the apprehensions of states to rest on loss of revenue and losing fiscal independence.

The establishment of national agricultural market involving participation of various states is likely to face similar problems of consensus building among states on various aspects dealing with revenue and related apprehensions. The lesson learnt in reaching at consensus for implementation of GST could ease the implementation of National Agricultural Market.

As the GST is being introduced with the objective of having a unified tax structure for goods and services, this is likely to facilitate and strengthen the Scheme on National Agricultural Market (NAM) aimed at an integrated system of market of agriculture produce at the national level, allowing free flow of agricultural commodities across states.

NATIONAL AGRICULTURAL MARKET (NAM)

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 commodities brought in the market linked to the National Market will be traded on the basis of their assessment/grade specification electronically. In an ideal situation this implies that a traders/buyer anywhere in the country will be able to bid for this commodity. The settlement of payments will be made electronically by integrating financial institutions with the Market. The concept has the potential of eventually developing into a comprehensive model facilitating integration of markets, functionaries and services like warehousing, banking, insurance, finance, promotion, etc. The market will lead to enhanced regional cooperation. The common market is expected to have an advantage over existing markets in terms of transparency, competition, efficiency, market information, risk, price signal, etc due to operation on e-portal, participation of large number of traders and integration of various services. It is a paradigm shift in the existing structure of agricultural marketing requiring business re-engineering.

Condition for Implementation of NAM

The concept though does not propose to change the basic state supported marketing structure but calls for their integration to the national marketing system. The speedy implementation of the scheme will require political will, availability of infrastructure, participation of private sector and willingness of stakeholders to participate. The implementation of the concept will be particularly challenged by a few legal restrictions.

APMC Act

The agricultural produce markets in different states are regulated by APMC Acts of their respective states. Each state is having different provisions under its Act. The provisions defined under these Acts create legal barriers to the inter-state trade and physical movement of goods viz (a) Taxation Related Barriers (variation in rates, applicability of VAT, levy of market fee at multiple point, etc.); (b) Physical Barriers (Essential Commodities Act, Check Posts, APMC Regulations, etc.); and (c) Statutory Barriers relating to licensing and registration of traders, commission agents.

The Government of India circulated a Model Act in 2003 to all the States/UTs to bring uniformity in the regulation, management and operation of agricultural marketing in different states but with limited success as suggested by the status of reforms and participation of private sector in various states. Some of the provisions identified for the implementation of a National Agricultural Market are unified license, single point levy and e-trading. Joining NAM would necessitate amending the different legal or regulatory framework that controls the agricultural trade in different states to harmonize and facilitate movement of goods and to reduce conflicts, inefficiencies, redundancies in supply chain and encourage transparency.

Essential Commodity Act, 1955 (EC ACT)

The list of commodities covered under the EC Act has been reduced from 54 to 7 at present. However, in order to contain the inflationary pressure on prices of essential commodities, the Government has been imposing stock limits on paddy, rice, pulses, sugar, edible oils and edible oil seeds, etc as and when required to contain the inflationary pressure. The ad-hoc approach on imposition of control on stock limits and movement of produce goes against the spirit of reforms and hinders investment and free trade in the country.

Taxation

The taxes applicable on agricultural trade in addition to the market fee also vary from state to state. The degree of market distortions on account of variation in the levy of market taxes/cess applicable on different commodities in different states are presented in **Table-1** below.

Table 1. Degree of Market Distortions

Sr. No.	Name of the State	Sales Tax	Taxes (as percent of MSP)	Remarks
1	Andhra Pradesh	All Commodities (except Maize, Jowar, Ragi, Bajra, Coarse grains) 4 %		
2	Bihar		3.0	
3	Assam	All commodities (except rice, wheat, pulm, f&v, fish, gur, atta, maida etc.)-4-8 %		*Not collected as markets are not in operation
4	Chattisgarh		2.2	
5	Delhi	F & V- nil Oilseeds-3 % Methi-7 %		
6	Gujarat	1.Spices --3%, 2.Aniseed-- 2%, 3.Cotton --4%, 4. Isabgol—2 %, 5. Cummin-2%, 6. Ajwain—2 %	0.8	Other agricultural commodities exempted from Sales tax Octroi - 0.2 to 4%
7	Goa	1.Betelnut –2% 2.Cashewnut – 2% Coconut, F&V, Cattle & Milk exempted from Sales Tax		Entry Fee Cattle – Rs.10/head Vehicle- Rs.10/truck
8	Jharkhand		1.0	
9	Haryana	F&V – nil, Food grains—4 % Pulses—4 %, Oilseeds—4 %	11.5	
10	Himachal Pradesh		5.0	
11	Karnataka	1.Foodgrains-nil 2.Pulses -2% 3.Oilseeds-4%		Market fee exempted for Industrial & Export Purchases.

Sr. No.	Name of the State	Sales Tax	Taxes (as percent of MSP)	Remarks
12	Kerala	Rs. 4 to 8 %		There is no market regulation and hence no prescribed charges.
13	Madhya Pradesh	NA	9.2	Development cess from traders only – 1 to 5%.
14	Maharashtra	All agricultural commodities are exempted from Sales Tax	3.8	Entry fee – Rs.10/truck.
15	Punjab		14.5	
16	Rajasthan	F & V—nil, Foodgrains—4 % Pulses & Oilseeds—2% Coarse grains--nil	3.6	Surcharge on Sales Tax –15 %
17	Tripura	Nil (for all agricultural commodities)		Entry fee Rs1/head
18	Uttar Pradesh	Foodgrains-4 % Pulses-2 % Oilseeds & Others- 4 %	16.71	
19	Uttarakhand		7.5	
20	West Bengal	NA	2.5	Purchase Tax Jute -4 %

National Agricultural Market in the light of GST

In order to achieve National Market in agriculture, there is need for harmonization in the provisions of APMC Act, EC Act and WDR Act. 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 inter-state 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 needs 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.

Some of the States are imposing Purchase Tax and Development Cess on sale of agricultural produce in the markets. For example, Maharashtra, earns more than 13,000 crore annually from octroi. Gujarat, on the other hand, earns about 5,000 crore from the CST. Agrarian states such as Punjab and Haryana earn more than 2,000 crore from purchase tax. Therefore, on account of subsuming this Tax/Cess in to GST may adversely affect the income of States. Therefore, it would be necessary to compensate such states in the beginning of introduction of GST.

The terms of trade can also be expected to improve in favour of agriculture vis-a-vis 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.

Presently small scale of operations and low level of processing in agriculture may be one of the reasons limiting agricultural commodities to avail benefits of GST unlike manufactured goods. NAM is expected to help scale size of business and attract big players making the agricultural marketing reach a level to start availing benefits offered by GST.

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.

Conclusion

The implementation of GST is inevitably linked to successful implementation of NAM as it aims at unified tax structure of goods and services which would eventually include agricultural produce. The National Agricultural Market envisages smooth flow of goods across states leading to competitive and transparent prices with likelihood of increased share to the farmer in the value created in agricultural commodities. The learnings from the GST experience may also help in resolving various bottlenecks to be encountered in evolving a unified common agricultural market.

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