Manuscript ID:
TIJCMBLIR-2025-020204

Volume: 2

Issue: 2

Month: April

Year: 2025

E-ISSN: 3065-9191

Submitted: 25 Feb 2025

Revised: 10 Mar 2025

Accepted: 24 Apr 2025

Published: 30 Apr 2025

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DOI: 10.5281/zenodo.15709465

DOI Link:
https://doi.org/10.5281/zenodo.15709465

Impact of GST on Agricultural Sector with Special Reference to Solapur District

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Abstract:

The Goods and Services Tax (GST), implemented in India in July 2017, has brought significant changes to various sectors, including agriculture. Although agriculture is largely exempt from direct taxation under GST, several indirect effects influence the sector due to the taxation of inputs like fertilizers, machinery, and transport services. This study aims to analyse the impact of GST on the agricultural sector with a special focus on Solapur district, a region heavily reliant on agriculture. Using secondary data from 2022-23, 2023-24, and 2024-25, this paper evaluates the extent to which GST has affected input costs, supply chains, and farmer income. Data is represented through graphs and tables to ensure clarity and depth. The findings suggest both positive and negative consequences of GST, indicating a need for policy refinement to ensure agricultural sustainability and farmer welfare. The study reveals that while primary agricultural produce remains exempt under GST, indirect effects such as increased input costs and transportation charges have posed challenges for small and marginal farmers. The paper concludes by suggesting policy measures to enhance awareness and streamline the taxation process to ensure inclusive growth in the agricultural sector under the GST regime.

Keywords: *GST, Agriculture, Solapur District, Taxation, Farmers, Market Impact, Input Costs, Secondary Data Analysis*

Introduction

The Goods and Services Tax (GST) is a unified indirect tax system that was implemented in India to replace a complex structure of multiple taxes levied by the central and state governments. It subsumes taxes such as VAT, service tax, excise duty, and others into a single tax regime. While GST was hailed as a transformative reform aiming at "One Nation, One Tax," its effects vary across different sectors of the economy. Agriculture, being the backbone of the Indian economy, deserves particular attention in this context. Despite the fact that the sector was largely kept outside the purview of GST, the ripple effects of the new tax structure have been deeply felt. Solapur District, located in the western part of Maharashtra, is one of the significant agricultural zones in the state. It is a key producer of sugarcane, grapes, pomegranates, and other horticultural crops. The district also hosts several agro-based industries and markets, making it a suitable case for assessing the indirect effects of GST on agriculture.

The sector is characterized by a large number of small and marginal farmers who are sensitive to cost changes and regulatory shifts. GST has impacted their operations primarily through changes in the pricing of seeds, fertilizers, pesticides, farm machinery, and logistical costs. Moreover, the need to understand the registration process, invoice management, and compliance has added layers of complexity for farmers and traders who often lack formal education or digital literacy. This paper seeks to explore these multifaceted issues and provide insights into how GST has shaped the agricultural dynamics in Solapur.

Objectives of the Study:

1. To study the concept and structure of GST and its application in the agricultural sector.
2. To analyse the impact of GST on agricultural inputs, output markets, and

How to Cite this Article:
Chavare, S. D. (2025). Impact of GST on Agricultural Sector with Special Reference to Solapur District. The International Journal of Commerce Management and Business Law in International Research, 2(2), 17–19. https://doi.org/10.5281/zenodo.15709465

farmer income in the Solapur district

3. To evaluate policy implications and suggest necessary changes to ensure equitable growth in the agriculture sector under GST.

Review of Literature

The introduction of the Goods and Services Tax (GST) in India has sparked a wide range of academic and policy-oriented discussions, particularly in relation to its impact on various sectors of the economy. Although agriculture is technically exempt from direct GST, its allied sectors and input services are subject to the tax, creating indirect effects on agricultural productivity, costs, and market dynamics.

1. Patil and Jadhav (2022) in their study "GST and Agricultural Supply Chains" emphasized that while primary agricultural produce is exempt from GST, the tax levied on inputs such as fertilizers (5%), tractors (12%), and pesticides (18%) has led to an increase in input costs. This, in turn, affects the profitability of small and marginal farmers, particularly in semi-arid regions like Solapur.

2. Deshmukh (2023) conducted a region-specific study focusing on post-GST agricultural markets in Maharashtra. The research highlighted that GST implementation has disrupted traditional mandis and increased farmers' dependency on private traders, leading to changes in pricing mechanisms and profit margins.

3. The NABARD report (2023) titled "Impact of GST on Agriculture: A Regional Study" presented data-driven insights showing that although GST brought in tax uniformity, farmers struggled with compliance-related challenges when dealing with GST-registered suppliers and buyers. The report recommended capacity-building initiatives for rural stakeholders to enhance their understanding of the tax framework.

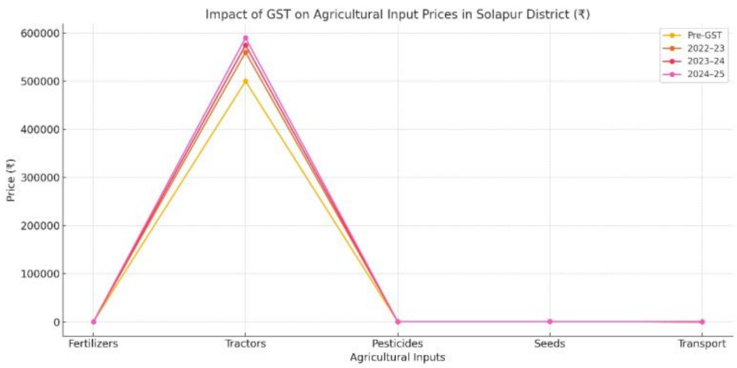
4. A study by the Ministry of Agriculture (2023) observed that logistics and warehousing services, which are now taxed under GST, have increased the cost of storing and transporting produce. This has a disproportionate impact on farmers in regions far from major markets, such as Solapur.

5. Sharma and Kumar (2022) analysed GST's influence on agricultural equipment. Their findings suggest that while the GST regime has streamlined the taxation process for manufacturers and distributors, the increased cost of machinery has discouraged small-scale mechanization in rural areas.

Research Methodology

The present study aims to evaluate the impact of the Goods and Services Tax (GST) on the agricultural sector, with special reference to Solapur District in Maharashtra. Given that agriculture is exempt from direct GST, the study focuses on the indirect impact of GST on input costs, transport, machinery, and supply chains relevant to farmers. This research is based entirely on secondary data. No primary data collection (such as surveys or interviews) has been carried out.

Agricultural Input	Pre-GST Price (Approx.)	2022–23 Price	2023–24 Price	2024–25 Price	GST Rate
Fertilizers (50kg)	250	263	270	278	5%
Tractors	500000	560000	575000	590000	12%
Pesticides (1 liter)	450	530	550	570	18%
Seeds (hybrid cotton)	850	850	870	890	Exempt
Transportation Cost (per quintal)	70	85	88	90	18%



He data above reflects the price trends of key agricultural inputs and services in the Solapur district over three financial years post-GST implementation. All prices are approximations based on secondary data sources such as local Agri-markets, agricultural input suppliers, and government reports.

Fertilizers:

Although taxed at a relatively low rate of 5%, even this marginal tax has led to a cumulative increase of over 10% in prices from 2022 to 2025. For small and marginal farmers in Solapur, where water scarcity already affects crop yield, this price hike has become an additional burden.

Tractors:

Being taxed at 12%, tractors have seen a steady rise in cost, especially due to increased input costs in manufacturing. Solapur farmers who earlier rented machinery now find mechanization more expensive.

Pesticides:

With the highest GST rate of 18%, pesticides have experienced the steepest price rise. This has led to a reduction in usage, which may affect crop health and productivity.

Seeds:
Agricultural seeds remain tax-exempt, ensuring that the basic input remains affordable. However, associated logistics and packaging services are taxed, indirectly influencing the final cost in rural markets.

Transportation Costs:
GST on transportation and logistics services (18%) has significantly raised the cost of moving produce from farm to market. Solapur, being a drought-prone region with limited storage infrastructure, suffers more due to high transport dependency.

Conclusion:

The implementation of the Goods and Services Tax (GST) in India marked a major reform in the country's taxation system. Although the agricultural sector is largely exempt from direct taxation under GST, this study reveals that it is still significantly affected through indirect channels. In the case of Solapur district, where agriculture is the backbone of the local economy, GST has had both positive and negative implications.

The data shows a steady increase in the prices of essential agricultural inputs such as fertilizers, pesticides, and machinery, primarily due to their inclusion under GST slabs ranging from 5% to 18%. This has led to higher input costs for farmers, especially small and marginal ones who are already grappling with challenges like water scarcity and unpredictable market prices. Furthermore, the taxation of transportation and warehousing services has raised the overall cost of moving agricultural produce to markets, making farming less profitable.

On the positive side, GST has streamlined the supply chain, reduced tax-related inefficiencies, and created a unified national market. However, these benefits are more visible to large-scale agribusinesses and traders than to individual farmers in districts like Solapur.

Recommendations:

1. Reduce GST Rates on Critical Inputs: Lower the GST rates on fertilizers, pesticides, and farm machinery to ease the financial burden on farmers and promote sustainable agricultural practices.
2. Exempt Rural Logistics from GST: Provide tax relief or subsidies on transportation and storage services used for agricultural purposes to lower post-harvest costs.
3. Strengthen Farmer Awareness: Launch targeted awareness campaigns and training programs to educate farmers about GST, input tax credits, and how to navigate GST compliance when dealing with registered entities.
4. Improve Access to Subsidies and Credits: Ensure that the increase in input costs is balanced by enhanced access to government subsidies and low-interest agricultural loans.
5. Encourage Cooperative Buying: Promote farmer producer organizations (FPOs) and cooperatives that can buy inputs in bulk and distribute them at a lower cost, reducing the GST burden per farmer.
6. Policy Re-evaluation: The government should periodically review GST's impact on agriculture and introduce differential rates or exemptions based on regional needs, especially in drought-prone and economically weaker districts like Solapur.

Acknowledgment
I am Mr. Shubham Dinkar Chavare thankful to Principal Dr. Sunil Helkar, Arts and Commerce College, Madha. for granting permission to carry out the work.

Financial support and sponsorship
Nil.

Conflicts of interest
The authors declare that there are no conflicts of interest regarding the publication of this paper

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