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EFFECTS OF THE GOODS AND SERVICES TAX (GST) ON DAIRY FARMING.

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Abstract

Dairy Farming is a major source of income for a large population in India. As majority of farmers in the country have marginal and small landholdings, animal husbandry helps them to sustain their livelihood. The Goods and Services Tax (GST) which came into force from July 2017 is a single indirect tax introduced after merging various indirect taxes of the state and Central Government. The effects of the new tax regime can be seen on all sectors including the rural sector. The GST rates on Dairy equipment's, dairy inputs like hay, cattle feed have increased from the past tax regime which has significantly affected the profitability and operations of the dairy farmers. This study is conducted in Harda district of Madhya Pradesh which is a major agricultural area of Central India. Both Primary and Secondary data is used for the study to know the outcomes of the new tax regime. Primary data is collected from 75 respondents of Harda district of Madhya Pradesh. Secondary data is collected through various journals and websites. Chi-square test is used to test the hypothesis.

Keywords- Dairy Farming,GST,Agriculture,Farmers,Dairy equipments.

1. Introduction

The introduction of the Goods and Services Tax in 2017 significantly restructured India's indirect taxation system. Prior to GST multiple indirect taxes were levied which led to complex tax structure, cascading effect of taxes and tax evasion's was introduced to remove these bottlenecks in the indirect taxation through a single unified tax. The impact of new taxation system can be seen in various sectors. Although Agriculturist is exempt from taxation under GST, dairy farming is kept out of definition of agriculture and is taxed under the new regime. Dairy Farming provides livelihood to large number of farmers in the country and is a major side income for large rural population. The higher taxation has adversely effected the dairy farmers under the new tax regime. Under GST, milk is taxed at 5% but condensed milk, Butter, Ghee

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attracts 12% tax rates. Further, Dairy Machinery and Milking machinery are taxed at 18% which has led to increase in input costs for the dairy farmers. GST on feed, fodder also have significantly affected the dairy farmers.

Conversely, the streamlined tax system under GST has simplified business processes for dairy producers and processors, potentially boosting competitiveness and efficiency.

2. Review of Literature

Singh et al. (2018) highlighted that before GST, items such as grass, hay, straw, concentrates, oil cakes, and animal feed were exempt from central taxes. Post-GST, oil cakes and similar residues are now taxed at 5%, although veterinary medicines have seen a slight tax reduction, which could lower treatment costs. The relatively high demand elasticity for dairy products suggests that increased taxes on processed dairy goods can suppress demand.

Mehta and Rathod (2019) argued that GST holds considerable promise by eliminating a host of earlier taxes such as excise duty, value-added tax (VAT), and service tax. This streamlining of taxation was expected to mitigate the cascading effect of multiple levies, thereby reducing the overall cost of manufacturing and distribution. According to their analysis, such cost efficiencies could potentially lead to lower prices for consumers and increased demand for dairy products, thereby supporting the growth of the sector.

Gautam et al. (2023). Observed that while the intention behind GST was simplification, the actual implementation has imposed new financial burdens on dairy farmers and producers. Key inputs in dairy farming, such as grass and cattle feed, which were previously exempt from taxation, now attract a 5% GST. This has directly increased the input costs for dairy farmers, who often operate on thin profit margins. In addition, processed dairy products such as flavored milk, cheese, and yogurt are subject to higher GST slabs, which not only escalate retail prices but also dampen consumer demand. This decline in market demand has had a ripple effect, ultimately disadvantaging producers and disrupting the broader value chain.

Meena et al. (2023) highlighted the detrimental impact of GST on the mechanization of dairy farms. They pointed out that dairy-related equipment and machinery such as milking machines, automatic feeders, and cooling systems are taxed at relatively high GST rates, making them financially inaccessible for small and medium-scale farmers. The situation is exacerbated by a prevailing shortage of skilled labor in rural areas, which makes mechanization not only desirable but essential for operational efficiency. These constraints suggest an urgent need to rationalize GST rates on essential agricultural machinery and inputs to foster innovation, improve productivity, and ensure the long-term sustainability of the dairy industry.

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2.1 Objective of the study

To assess the impact of the Goods and Services Tax on the dairy farming sector.

3. Research Methodology

Both Primary and secondary data has been used for this study. Primary data is collected from 75 dairy farmers of Harda district using google questionnaire using purposive sampling technique and secondary data is referred from various journals, articles and websites. Chi-square test is used to test the hypothesis. SPSS is used for data analysis.

4. Data Analysis and Interpretation.

4.1. Are you aware about GST rates on dairy equipment's and other inputs?

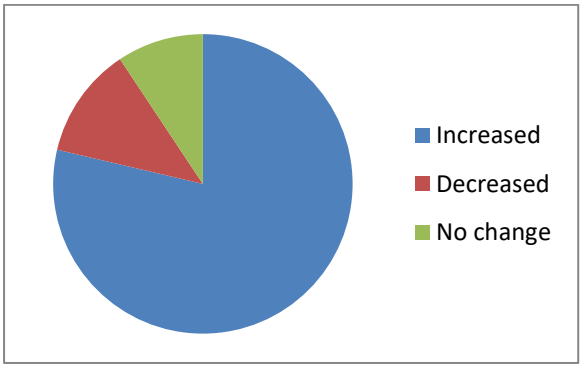
Table 4.1.1

Response	Frequency	Percentage
Yes	61	81.33
No	10	13.33
Can't Say	04	05.33
Total	75	100

Interpretation-The above table 4.1.1 shows that majority of respondents are aware about GST rates on dairy equipment and other dairy inputs.

4.2. Prices of dairy inputs and equipment after GST implementation.

Chart 4.2.1



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Interpretation- The above chart 4.2.1 depicts that Majority of respondents find prices of dairy inputs and equipment's increased after GST implementation.

4.3 – Hypothesis Testing

Hypothesis-

H_0- There is no significant relationship between profitability in dairy farming and GST.

H_1-There is a significant relationship between profitability in dairy farming and GST.

Chi-Square Test

Table 4.3.1

	Value	df	Asymptotic significance (2-sided)	Exact Significance (2-sided)
Pearson chi-Square	5.985	4	0.030	0.032
Fisher's Exact Test	6.122	4		0.044

Interpretation- Since the p-value is less than 0.05, the null hypothesis is rejected, indicating a significant relationship between GST and profitability in dairy farming.

5. Findings

- About 81.33 % of respondents are aware about GST on dairy inputs and equipment's.
- Majority of dairy farmers find dairy inputs and equipment's costlier after GST implementation.
- About 78.66 % of respondents find their profitability in dairy farming decreased after GST implementation.

6. Suggestion

- The GST council and Government should consider lowering rates on dairy inputs and equipment's so that it doesn't affect the profitability of dairy farmers adversely.

7. Limitations of the Study

- This study is limited to dairy farmers of Harda district only.
- The sample size of the study is small.

8. Conclusion

The effects of Goods and Services Tax implemented from 2017 in India is uneven in different sectors. The increased rates of dairy inputs is adversely affecting the profits of the dairy farmers. Further the increased rates of outputs or dairy products is affecting the demand for the same since it is relatively elastic. However, GST implementation has also formalized the hitherto disorganized dairy sector and helped to improve its efficiency. The need of the hour is to lower the taxes on dairy inputs so that it doesn't affect large chunk of small dairy farmers negatively.

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