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The Institute of Chartered Accountants of India
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E-publication on

Agriculture Industry

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Foreword

India is known for its agrarian economy since ancient times. It is also the primary source of livelihood for about 58% of India's population. Gross Value Added (GVA) by agriculture, forestry and fishing was estimated at ₹ 19.48 lakh crore in FY20 (PE).

Due to rising population and corresponding growth in demand, the Indian agriculture industry is expected to grow exponentially. However, the industry is also prone to external impacts such as weather issues, pests, overabundance, etc. which bring about financial uncertainty and insecurity.

Taking all these factors into consideration, it is our duty to apply our expertise towards ensuring that this essential industry is protected, nurtured and grown at least from the financial perspective. Ensuring that food is produced through a sustainable and safe production chain means ensuring that efficient management and financial systems are put in place.

We also have to keep in mind that India is among the 15 leading exporters of agricultural products in the world. Agricultural exports from India reached US$ 38.54 billion in FY19 and US$ 35.09 billion in FY20.

The new reforms being initiated in this particular sector have compelled us to update and make available to our members all the latest information related to this sector. Members occupied with this industry as well as providing their professional services for the same will benefit immensely from the inputs provided in this publication.

This publication raises our level of knowledge with respect to the agricultural sector as well as updates us so as to enable us to offer our services for the betterment of this sector as well as helping us to expand our client base into this industry.

I would like to thank CA Anand Jakhotiya, Treasurer, WIRC and CA Umesh Sharma, RCM, WIRC, for contributing their valuable time and expertise for co-ordinating and finalising this publication.

I thank the contributors' team comprising CA. Sandeep Sachdeva, CA. Ramesh Baheti, CA. Manish Somani, CA. C. V. Deshpande, CA. G. B. Modi, CA. Shurud Lele, CA. Mahesh Kabra, CA. Sagar Kawana and CA. Karan Chandwani for sharing their valuable time by providing insights for this publication. I am also pleased to acknowledge the contribution in terms of research and knowledge sharing made by our Branches including Nagpur, Vasai, Kolhapur and Kalyan-Dombivali Branches of WIRC.

I am confident that our members and students will be able to take advantage of the knowledge within these pages to chart out new areas of future professional interest.

I congratulate all the contributors and members for this publication.

CA. Lalit Bajaj
Chairman, WIRC

Preface

Respected Readers,

Season's Greetings !!!It

It gives us immense pleasure to launch the third sector specific e-publication and the subject is "Agriculture" as conceptualised by our Chairman CA Lalit Bajaj. This publication is possible only because of the hardworking team of contributors. It is rightly said "When Team works...Dreams work". Only because of hard, untiring efforts of all contributors inspite of pressure of deadlines today we are in position to get thorough knowledge on this subject through this e-publication. I am highly grateful for the untiring efforts of my colleagues RCM CA Umesh Sharma and Publication Well Supported by Contributor CA Sandeep Sachdeva, CA Ramesh Baheti, CA Manish Somani, CA C. V. Deshpande, CA G B Modi, CA Shurud Lele, CA Mahesh Kabra, CA Sagar Kawana and CA Karan Chandwani. This Team has covered all crucial aspects impacting the Sector and has given us a holistic view in a crisp manner. Wishing everyone Happy Learning and a Healthy Life !!!

CA. Anand Jakhotiya
Treasurer, WIRC

Preface

The agriculture sector, unfortunately the so-not-preferred career wise sector by the youth now a days, is the primary source of livelihood for about 58% of India's population. To put some light on this sector, let me tell you; India has the 10th-largest arable land resource in the world, with 20 agri-climatic regions, all the 15 major climates in the world exist in India. Our country also has 46 of the 60 soil types in the world. We are the largest producer of spices, pulses, milk, tea, cashew, and jute, and the second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton, and oilseeds.

Food is our most basic necessity, which arrives from agriculture, may it be any class of the society. It is an inevitable need. Over the next few years as structural changes continue within the Indian economy, the share of agriculture is expected to go down. However, the government should focus on some crucial areas like rural infrastructure, better access to credit, and enabling value addition by farmers that spur the agricultural economy to better growth rates than are being presently witnessed. Although, if the youth decides, they can revolutionize this sector by implementing technology that will help farmers increase their farm produce and get ahead with the use of Artificial intelligence.

Best wishes to my CA colleagues who have taken this initiative to enlighten our members and students regarding this sector. Congratulations for this publication and hope it will keep helping and educating the readers at large.

CA Umesh Sharma
RCM, WIRC

WESTERN INDIA REGIONAL COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Agriculture Industry:Overview

Introduction

India is an agrarian economy and as rightly quoted by Mahatma Gandhi - "agriculture is the backbone of India". It is the main source for food, income and employment in rural sector.

Sh. Pandit Jawaharlal Nehru, the first Prime Minister of India advocated that everything except agriculture can wait. Therefore, it became imperative that farmers and farming activity were given topmost status in Indian economy.

Agriculture sector played and even now playing a strategic role in the process of economic development of our country. Agriculture and its allied activities act as a main source of livelihood for more than 58% of India's population. It provides employment to more than 50% of the Indian work force. Further, as per the Economic Survey 2020-21, the contribution of agricultural sector to Gross Domestic Product (GDP) is approximately 19.9%. The state of agriculture also has a significant influence on the overall growth and performance of secondary and tertiary sectors (industrial sectors) of the economy. It plays a vital role as foreign exchange earner too. So even if share of agriculture in overall GDP has decreased gradually each year due to development in other areas of the country's economy, agriculture is still demographically the broadest economic sector and plays a significant role in the overall socio-economic development of India. For the mass population of this country, the agriculture played a significant role in providing the food to each countryman which is very important for the survival and the growth of the country.

Snapshot of Indian agriculture sector:

- Gross Value Added (GVA) by agriculture, forestry and fishing was estimated at ₹ 19.48 lakh crore (US$ 276.37 billion) in FY 2019-20 (PE). Growth in GVA in agriculture sector stood at 3.4% in FY 2020-21.
- The Indian food and grocery market are the world's sixth largest, with retail contributing 70% of the sales. The Indian Food Processing Industry (IFPI) accounts for 32% of the India's total food market. IFPI constitutes as much as 8.98% of GVA in manufacturing in FY 2018-19 at 2011-12 prices.
- During 2019–20 crop year, food grain production was estimated to reach a record 296.65 million tonnes (MT).
- Production of horticulture crops in India was estimated at a record 320.48 million metric tonnes (MMT) in FY 20 as per second advance estimates.

- India also has the largest livestock population of around 535.78 million (around 31% of the world population).
- Milk production in the country is expected to achieve a year on year growth of 10% due to increase from 198 MT in FY 2019-20 to 208 MT in FY 2020-21.
- According to Indian Sugar Mills Association (ISMA), sugar production in India was 26.46 MT during the sugar season from October 2019 till May 2020.
- India is among the 15 leading exporters of agricultural products in the world. In FY 2019-20, India's agricultural and allied exports amounted to approx.. ₹ 252 thousand crores.
- India is expected to achieve the ambitious goal of doubling farm income by 2022. In the next few years, the agriculture sector in India is expected to benefit from increased investment in agricultural infrastructure such as irrigation facilities, warehousing and cold storage.

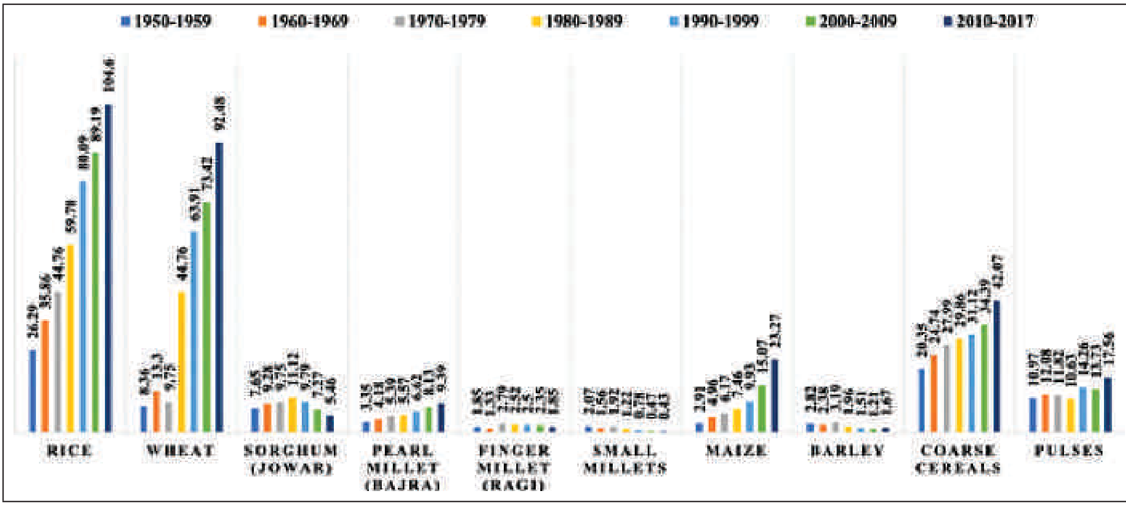
Development of agriculture since independence (agricultural growth since 1950-51):

India has made a lot of progress in agriculture since independence in terms of growth in output, yields and areas under various crops. It has gone through a green revolution, a white revolution, a yellow revolution and a blue revolution.

Today, India is a global agricultural powerhouse. It is the world's largest producer of milk, pulses, and spices, and has the world's largest cattle herd (buffaloes), as well as the largest area under wheat, rice and cotton. It is the second largest producer of rice, wheat, cotton, sugarcane, farmed fish, sheep & goat meat, fruit, vegetables and tea. Production of cereals is one of the primary contributions of the agricultural sector to India. Cereals account for almost 46% of the Indian agricultural market. Even though farming makes up a large share of agriculture in the country, livestock rearing along with fishing also contribute significantly to feed India's population as well its economy.

Changes in cropping pattern:

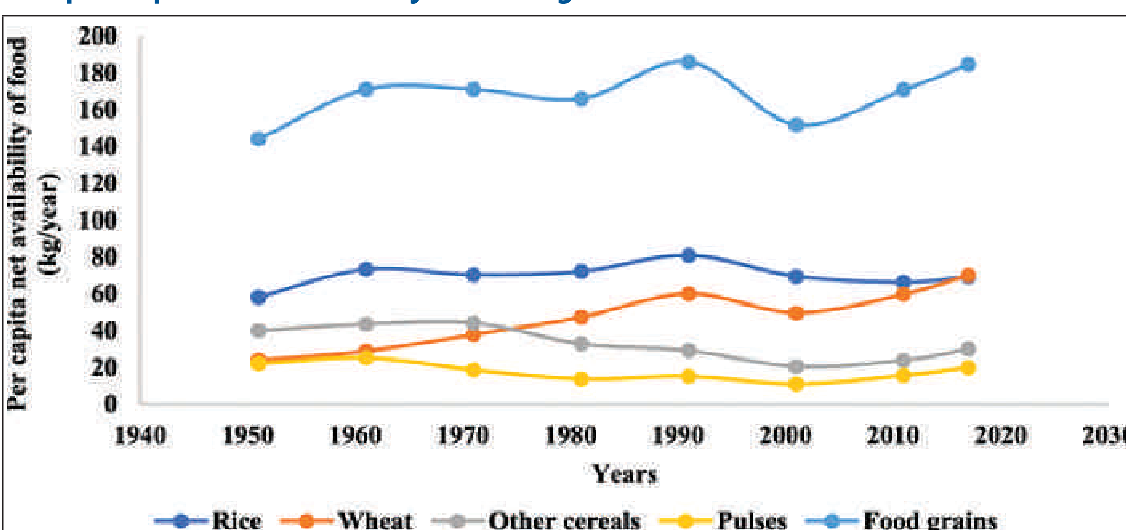
The choice of crop cultivation of farmer is guided by the factors like physical, social and economic. Sometimes they cultivate several crops at their farms and rotate a particular crop combination over a period. Cropping pattern is a dynamic concept because it changes over space and time. It can be defined as the proportion of area under various crops at a point of time. In other words, it is a yearly sequence and spatial arrangement of sowing and fallow on a given area. In India, the cropping pattern is determined by rainfall, climate, temperature, soil type and technology and socio-economic conditions of the farmers.



Trend in the production of food crops in India from 1950 to 2017:

The period after initiation of the green revolution by introducing mono-hybrid crops in India saw increased production of crops such as rice and wheat. But the production of millets decreased as the green revolution did not focus on the minor cereals to increase the food production of the country. The production of minor cereals and pulses were almost stationary while the production of rice and wheat in 2010–2017 surpassed its own production during 1950–1959 crop year.

The per capita net availability of food grains in India since 1951:



The per capita net availability of food stands for the availability of amount (kg) of food per person per year in the nation. The above figure indicates an increase in the availability of rice and wheat per person and a decrease in the availability of pulses and millets per person after the green revolution. The decrease in the availability of millets and pulses per person is mainly due to the focus given on the production of rice and wheat alone during the green revolution. Although pulses did not lose the importance among the consumers. For instance, millets', per capita availability decreased from 22.1 kg/year in 1951 to 19.9 kg/year in 2017.

Place of agriculture in the national economy:

National income has significance because of the following reasons -

- To see the economic development of the country.
- To assess the developmental objectives.
- To know the contribution of the various sectors to national income.

Performance of an economy is directly proportionate to the amount of goods and services produced in an economy. Measuring national income is also important to chalk out the future course of the economy. It also broadly indicates people's standard of living.

The importance of agricultural sector in our national economy can hardly be over-emphasised. Agriculture has traditionally been the most predominant sector of the Indian economy. Its contribution to the national prosperity has been so significant that it is sometimes described as the 'Backbone' of the Indian economy. The agricultural sector accounts for the largest sectoral contribution to the national income and also provides direct and indirect employment to a vast majority of the working population. In this context, it may be mentioned that the share of agricultural sector in the national income has steadily declined since 1950-51, primarily due to industrialisation and development of tertiary sector in the Indian economy.

The contribution of the primary sector in national income, employment and export earnings are well summarized in the table given below –

Table - Share of agriculture in national income, employment and foreign trade

Year/ Period	Agriculture Share in GDP (%)	Population Dependent on Agriculture (%)	Exports (%)
1950	57	69.7	NA
1960	53	69.5	44.3
1970	46	69.7	31.7

Year/ Period	Agriculture Share in GDP (%)	Population Dependent on Agriculture (%)	Exports (%)
1980	39	60.5	27.8
1990	31	59	18.5
2000	25	58.2	14.2
2010	16	54.6	10.5

Capital formation in Indian agriculture:

Investment is one of the crucial factors determining the growth rate of agricultural sector. Gross Capital Formation (GCF) is used as a measure of investment. It refers to the aggregate of gross additions to the fixed assets (i.e. fixed capital formation) and change in stocks during the reference period. The Government plays a very significant role in boosting agricultural growth through its increased investment in this field as also inducing the private investment in agriculture.

The agricultural statistics in India as published by the Directorate of Economics and Statistics in the Ministry of Agriculture (DESMOA), reveal that the contribution of private sector in GCF in agriculture (i.e farm households) accounts for a major share of total investment. The share of public sector in GCF is mainly on major and medium irrigation systems and has been decreased consistently.

During 1960-61, the total investment in the agricultural sector was ₹ 1670 crores of which the private sector and public sector contributed ₹ 590 crores and ₹ 1070 crores, respectively. However, during 1980-81, the total investment increased to ₹ 4640 crores with ₹ 2840 and ₹ 1800 crores by the private and the public sectors respectively (Economic Survey, 1998-99).

The GCF in the sector was stagnant from 1980-81 to 1999-00 mainly due to a fall of public sector investment in agriculture. However, during 2002-03, there was a substantial increase in investment by the public sector which also induced the private sector investment, resulting in ultimate growth during the 2000s. If this trend were maintained, then it would be an indication of some success resulting from the Government's recent efforts in diverting higher flow of resources to agriculture.

Under the revised series with base year 2011-12, the sector-wise rate of investment in agriculture and allied sector, measured as a ratio of GCF to GVA of the sector, is shown in the below Table. Total GCF in agriculture and allied sector has increased from ₹ 291989 crore in 2015-16 to ₹ 343476 crore in 2016- 17. Agriculture and allied sector accounted for 7.71% of total GCF of the economy during 2016-17.

Year	Public GCF (₹ Crore)	Private GCF (₹ Crore)	Total GCF in Agriculture (₹. Crore)	GCF in Agriculture to Overall GCF (%)	GCF in Agriculture to GVA of Agriculture (%)
2011-12	35696	238175	273870	8.54	18.23
2012-13	39743	233747	273490	7.73	16.33
2013-14	40827	290009	330836	9.04	17.17
2014-15	47319	284545	331836	8.17	15.85
2015-16	52267	239721	291989	7.00	13.12
2016-17	644102	79066	343476	7.71	13.83

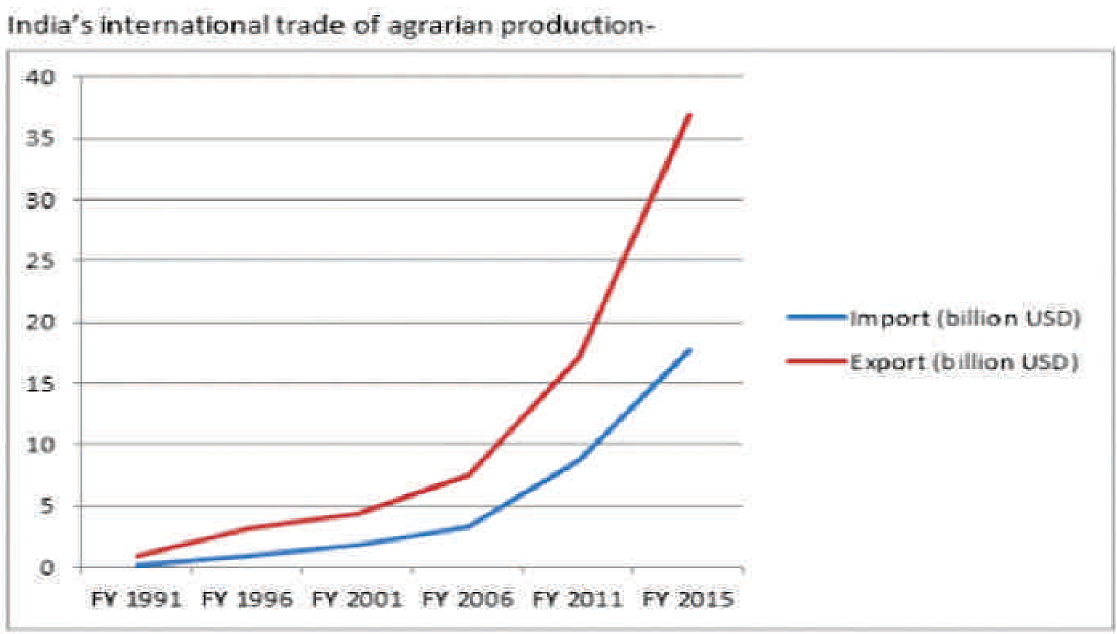
Source : Central Statistics Office

Foreign trade of agricultural commodity:

Foreign trade plays a crucial role in the economic development of a country. India enjoys a significant position in global agricultural trade. India's trade policy on agricultural items is guided by the twin objectives of ensuring food security and building export markets for enhancing the income of farmers, depending on domestic availability.

Giant strides have been made in agricultural export since independence. In 1950-51, India's agricultural export was about ₹ 149 crores which has risen to the level of ₹ 252 thousand crores in 2019-20. There has been substantial increase in export of almost all the agricultural items in the last 15 years, but despite being one of the top producers of agricultural products, India does not figure among top exporters of agricultural produce. For example, India holds second rank in the world wheat production but ranks 34th in export. Similarly, despite being world no. 3 in production of vegetables, the export ranking of India is only 14th. Same is the case for fruits, where India is the second largest producer in the world, but the ranking in export is 23. To reach among the top exporting nations in agriculture, commensurate with the production, there is a clear and categorical need to take proactive interventions.

The graph given below describes the exports and imports from agricultural sector from 1990 to 2015.



(Source: FAO and Tata strategic research)

As per WTO's trade Statistics, the share of India's agricultural exports and imports in the world agriculture trade in 2018 was 1.7% and 2.6%, respectively. Even during the difficult time of pandemic lockdown, India took care to not to disturb the world food supply chain and continued to export. The exports of agricultural commodities during March 2020 to June 2020 were ₹ 25552.7 crore against an export of ₹ 20734.8 crore during the same period in 2019, showing a sharp increase of 23.24%.

The agricultural exports as a percentage of India's agricultural GDP has increased from 9.4 % in 2017-18 to 9.9 % in 2018-19. While the agricultural imports as a percentage of India's agricultural GDP has declined from 5.7 % to 4.9 % indicating exportable surplus and decreased dependence on import of agricultural products in India.

The below table describes the Year-wise imports and exports of principal agricultural commodities –

Year	Agricultural Imports	Total Imports	Share of agricultural Imports in Total Imports (%)	Agricultural Exports	Total Exports	Share of agricultural Exports in Total Exports (%)
1990-91	1205.86	43170.82	2.79	6012.76	32527.28	18.49
2000-01	12086.23	228306.64	5.29	28657.37	201356.45	14.23
2010-11	51073.97	1683466.96	3.03	113046.58	1136964.25	9.94
2011-12	70164.51	2345463.23	2.99	182801.00	1465959.39	12.47
2012-13	95718.89	2669161.95	3.59	227192.61	1634318.28	13.90
2013-14	85727.30	2715420.78	3.16	262778.54	1905011.08	13.79
2014-15	121319.02	2736676.99	4.43	239681.04	1896348.42	12.64
2015-16	140289.22	2490303.76	5.63	215396.32	1716384.39	12.55
2016-17	164726.83	2577671.14	6.39	226651.91	1849433.54	12.26
2017-18	152095.20	3001028.71	5.07	251563.94	1956514.52	12.86
2018-19	137019.46	3594674.22	3.81	274571.28	2307726.18	11.90

Source: Directorate General of Commercial Intelligence & Statistics, D/o Commerce.

Concluding Remarks:

Agriculture continues to be the backbone of Indian economy by providing livelihood for more than half of her total population. The primary sector of the economy also acts as a significant contributor to GDP and foreign exchange. In recent year, Indian agriculture has experienced profound changes.

Self-reliant agriculture is critical for the goal of an Atmanirbhar Bharat and that so when you have a huge density of population. There is a need to give increased focus on exploring global markets for agricultural commodities to give an additional source of market for the surplus of agricultural produce. For this, agricultural export is extremely important as besides earning precious foreign exchange for the country, the exports help farmers/producers/exporters to take advantage of wider international market and increase their income. Exports have also resulted in increased production in agriculture sector by increasing area coverage and productivity. Ministry of Commerce and Industry, therefore, introduced Agriculture Export Policy, 2018 with an aim to double farmers' income by 2022 by doubling agricultural exports from the country and integrating Indian farmers and agricultural products to the global value chain. The agriculture sector in India is expected to generate better momentum in the next few years due to increased investment in agricultural infrastructure such as irrigation facilities, warehousing and cold storage. Furthermore, the growing use of genetically modified crops will likely improve the yield for Indian farmers.

Globalization of Indian agriculture offers both opportunities and challenges to policy makers. Opportunities exist for deriving large benefits through substantial increase in the agricultural exports, especially, high value labour-intensive agricultural products. The challenges lie in modernizing small scale agriculture and making it efficient and competitive.

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Current Challenges Faced by Agricultural Industry

As stated earlier, agriculture is the backbone of Indian economy. A majority of the Indian population depends upon agriculture for its survival. However, it has to be kept in mind that India is the second most populous and most diverse country in the world. With the increase in population, the burden on agriculture as a whole has increased to feed and sustain more than 130 billion people. Also, the land devoted to agricultural activities is getting reduced to suit the needs of increasing population. In addition to increasing population, government's non-intervention, changing climatic patters and uneven water supply have worsen the situation. Let us have a look at the problems plaguing the agriculture.

1. Data availability

Unavailability of reliable data results into multifarious problems. Following are the main problems faced due to unavailability of data.

Any business works on the basic economic theory of demand and supply. This is true with respect to agricultural industry as well. For successfully running agricultural industry, one needs to have a fair understanding of the demand-supply equation. However, it becomes difficult to understand demand-supply equation because of lack of accurate data of the production, consumption, stock-in-trade of any of the agricultural commodities. Demand and supply also becomes important to determine the prices of commodity. However, in the absence of demand supply equation, prices of agricultural commodities fluctuate often. Also, in case of lack of demand or supply of a particular commodity, the government's intervention is required to support the farmers and consumers. However, absence of data related to demand and supply results into timely intervention by the government.

Further, Government devises policy to give subsidy and incentives to farmers, to fix minimum support price etc. In order to devise such policies a future prediction with respect to a particular commodity or situation is required. However, in the absence of verified and reliable data, the government's policies fail to foresee the circumstances affecting incentive, subsidies and minimum support prices. The Government policies go wrong very often because of the availability of wrong data which is used in formulating these policies. This happens because there are no proper formal data collection points available to get the correct data. And whatever data collection points are there, those are not upgraded considering the recent technological advancement.

2. Unpredictable Government policy

Unpredictable Government policies, which have not been in sync with ground reality, have been another major problem in agricultural sector. Not only the

Exim policies but also the action of the Government of suddenly implementing stock limits at short notice under Essential Commodities Act, 1955 (ECA) impact the business. As discussed above, the Government's policy is shaped in the absence of reliable data, which again makes the policy unpredictable. With recent amendments to ECA, this problem has been addressed to some extent. Imagine, if businesses with resources including intelligent manpower face these issues, what will be the situation of farmer?

Analysis of cycle of Tur with reference to data availability and unpredictable Government policy

Let us start by analysing the cycle of a particular commodity called 'Tur'. It starts with data regarding availability of stock at the beginning of the season in the system.

The data regarding sowing required to be done in a particular season is not available with accuracy. The data is based on mere visual observations of field officers of the State Department of Agriculture. Even this data becomes available as late as September. By that time, the sowing of Tur across the country gets over.

Reference can be made to data provided by Department of Agriculture, Government of India for sowing of Tur (Arhar) for Kharif season of 2019-20. The data shows that sowing has been on record high for consecutive years. Not only Tur but overall sowing of pulses is higher than the average sowing for consecutive years. In spite of these data of high production, prices of Tur have reached almost the second highest level ever after 2015-16 in September-October 2020.

India Pulses & Grains Association (IPGA) forecasted lower pulses output due to erratic monsoon in January 2020. And the Government's forecast was made in as late as May 2020 and that too was wrong. This shows that the methodology used by the Government in arriving at these estimates needs an overhaul.

As far as sowing of Tur this year is concerned, it was certainly high. However, excess rains in October 2019 impacted the yield of most crops. Also, the Government failed to make correct estimations as Crop Cutting Experiments (CCE) used for yield estimation failed to capture the impact of erratic rainfall, creating question marks on the efficacy of CCE.

To add to these problems the Government policies are also uncertain. Price rises by almost 50 % resulted in anticipation of release of stock by National Agricultural Cooperative Marketing Federation of India Ltd (NAFED). The Government lowered import duty on some pulses towards the end of October, 2020 and fixed the deadline as 15th November 2020 for imports to be made, which was almost useless as no meaningful import could be done by then. Therefore, the deadline was further changed to December end which was too late as lot of imported Tur landed in India just at the beginning of harvesting season and prices crashed below Minimum Support price (MSP) which were hovering high until November beginning. Then, again NAFED declared its intention to procure huge quantities of pulses across states. This could clearly have been avoided with proper planning for which accurate data availability was essential.

Hence due to inaccurate data and not having the dynamic policy framework are the key reasons for the price hike and undue lowering the price of the agricultural produce. Eventually the consumer and also the farmer suffer in this process.

3. Highly unorganised

It is a well-known fact that the agriculture sector is highly unorganised. Farmers often depend upon the mercy of moneylender/landlords to get loans to maintain their livelihood. If such farmer fails to pay back the loan, he is forced to give his small landholding to the moneylenders/landlords. Also, majority of the farmers either have very small landholdings or no landholdings. In latter case, a farmer is forced to work on the landholdings owned by the big farmers or landlords and receives the nominal wages not enough to sustain him. In this way, the agricultural sectors remain outside the purview of government's control and remain highly unorganised.

4. Involvement of cash payment

Under reporting of income is also possible as one can increase the cost of buying of agricultural produce as much as one wants since payment is done by cash and there is no trail of the transactions. In many cases farmers end up selling the farm produce at the farm or village itself to a local trader or he sends it for selling with a known local transporter or commission agent at the nearest market. These farmers who either sell it to local trader or rely on transporters or commission agents for sale are at high risk of pilferage and low prices. The local trader doesn't want to bypass the trader at Agriculture Produce Market Committee (APMC), as in case of direct transaction with the processor he will have to take payment via bank resulting into maintaining all the books of accounts, paying goods and services tax and income tax, filing returns. If local trader buys any produce, he sells it to the trader at the APMC through commission agents. Rule 6DD(e) of Income Tax Rules, 1962 (ITA Rules) allows payment of cash to the cultivator even beyond ₹ 10,000. By selling it to the trader in APMC, he saves himself from all these legal hassles and related costs. Cash transactions also allow him to fleece the farmers. All these incentives are sufficient for him to remain off record. Not only the traders but the large part of the ecosystem of the agricultural supply chain remains out of formal economy because of such advantages.

The trader who buys and sells in cash is out of the formal ecosystem. All of his vendors and service providers are paid in cash. Therefore, they also remain out of formal economy. The vehicle owners, intermediaries, their vendors, lessors, employees also remain out of the formal ecosystem.

5. Pilferage

There have been numerous cases reported every year of frauds related to weight manipulation or even non-receipt of payment. The fraudulent traders, mostly non-local, never return after they defraud a large number of farmers with a large sum. The trader at APMC sells the produce further to a stockist or processor. Every time any produce moves or changes ownership, a cost is involved. Movement requires loading, unloading, transportation, trader margin, commission or brokerage. At every stage there is also pilferage of such produce. Pilferage is not only because of theft but also because of losses while handling, weighing, moving, loading, unloading and transporting agriculture produce. This is an absolutely common problem though the extent may vary from produce to produce, trader to trader or market to market depending upon care taken, which again involves cost. All of these factors make the process very inefficient and also costs exchequer revenue loss by way of cash transactions remaining off record.

The cash economy also aids the pilferage of agricultural commodities. This whole chain of thieves disguised as petty traders sustained because of Rule 6DD(e) of ITA Rules allowing payment to cultivators in cash. From the farmers to traders to transporters to processors, everyone one suffers from this curse called pilferage in India.

6. Uneven water resources

India is not only a diverse country with respect to culture and traditions but with respect to water resources also. The availability of water is not consistent or even in all parts of the country. To make it worse, bad monsoon adds further to the problem. There are certain areas like Punjab, Haryana where the water resources are enough to yield good agriculture produce. However, there are certain areas in Maharashtra, Gujarat, Madhya Pradesh and Uttar Pradesh which are drought hit and as a result of which agriculture is affected. On the other hand, many states face floods in every monsoon season.

The uneven availability of water resources makes the farmer dependent upon the monsoon, which again has become unpredictable and affected the agriculture. Uneven monsoon also results in flood in some areas and draught in other, which also results into damage to agriculture produce.

7. Seasonal

Agriculture industry is seasonal and therefore, requires stocking of raw material harvested for the whole year. And then sudden changes in the Government policies can impact the business of farmers. The Government policy has to be steady and needs to be changed only in the case of absolute necessity. Apart from being seasonal this industry is also cyclical.

All these factors increase the risk involved in the agriculture industry to an unmanageable level resulting in repulsion of capital from the industry. Many large businesses have fallen due to inability to manage this combination of seasonality, cyclicality, uncertainty around Govt policies & inaccurate data availability.

Problems from farmer's perspective:

Let us have a look at the problems from a farmer's perspective:

- Due to farm fragmentation, landholdings of farmers are small and uneconomical. As per the Agriculture Census 2015-16, the average size of operational land holdings is just 1.08 hectare. Majority of the farmers' holdings are even lower than the average and therefore, farmers are not even interested to adopt new methods of cultivation. This is one of the main reasons for low productivity in agriculture sector. Miniscule of the farmers are holding land more than 30-40 acres. However, due to family partitions it is getting reduced further.

- Due to lack of infrastructure such as storage, logistics etc, many times farmers are forced to sell harvest at low prices. On one hand farmers do not have enough resources to build their own storage on the other there is lack of investment in agricultural infrastructure. Because of these reasons, farmers are unable to store the produce and are forced to sell at low costs because of their helplessness. Since farmers do not have any other option but to sell the produce, the buyer acquires the more bargaining power and hence, the farmers get the lower prices.

- Most of the land is rain fed. Irrigation facilities, though increasing due to Governments initiatives, are not adequate. There are climatic changes also which affect agriculture.

- Farmers are not enough educated, and they are slow in adopting new technology. Though with the advent of smartphones, this can be addressed properly.
- Quality seed is not available in abundance and is costly. Stringent quality control norms are only on paper. In the year 2020, there have been a number of cases of bogus soybean seeds in the state of Maharashtra.
- Lack of proper information regarding national and international crop patterns, area under cultivation, demand, supply position, is again a major hurdle for farmers.
- Small farmers have to incur relatively higher cost for marketing as percentage of output which makes realization is non-remunerative. A farmer generally sells at his place and does not have sufficient information regarding demand, supply and prevalent market condition.
- The small size of lots for sale results into low bargaining power and dependence on intermediaries.
- Improvement in extension service is required.
- In addition to above, following problems also creates hurdles for the farmers:

  a) Poor knowledge of market requirements.

  b) Inadequate and improper post-harvest facilities such as cleaning, grading and storage arrangement. improper.

  c) Low dissemination of agriculture technology.

  d) Non-availability of skilled labour to operate various machines.

  e) Danger to crops due to animals such as deer, cattle etc.

  However, the good news is that many of these problems can be addressed properly. With the advent of smartphones and availability of networks at remote places, it has become easier to make data assimilation.

  We will now discuss about the steps taken by the Government to address some of the concerns in last couple of years.

Integration of National Agriculture Market with APMC mandis:

National Agriculture Market (eNAM) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities. Vision of eNAM is to promote uniformity in agriculture marketing by streamlining procedures across the integrated markets, removing information asymmetry between buyers and sellers and promoting real time price discovery based on actual demand and supply. More than 1000 APMCs in India are already integrated on the eNAM platform.

This is a very ambitious project of the Government of India to increase farmers' income. The thought process behind it is very commendable. But the Government has forgotten some basic issues while implementing it. It can work only in case of agricultural produce that can be standardised. Few commodities fit in that category. Then there is the problem of third-party credit risk which is relatively easy to take care of. Another major problem is the dispute handling mechanism.

Unfortunately, actual functioning on eNAM has not yet started even after a couple of years of integration. The commission agents are just asked to make entries on the platform at the end of the day, which means actual process is still similar to open auction but shown as e-auction on eNAM platform.

Direct Benefit Transfer Scheme:

To increase farmers' income without leakages in the system, the Government has started using the ambitious Direct Benefit Transfer (DBT) method. Under this method, the money is transferred electronically directly to the bank account of the beneficiary instead of routing it through any intermediary or even Government office. This removes risk of leakages in the name of bogus beneficiaries, redtapism in the system, cost of the whole process and also reduces the time required to credit beneficiaries' account and thus, improving overall experience. Currently there are 16 schemes under DBT. The schemes like Pradhanmantri Fasal Bima Yojana or subsidy schemes like Pradhan Mantri Krishi Sinchai Yojana or the flagship Pradhan Mantri Kisan Samman Nidhi (PM Kisan) are now implemented using this method. PM Kisan alone has over 10 crore beneficiaries registered under the scheme.

Though the above said schemes are successfully implemented, however, the Govt. should work towards increasing the coverage of this scheme rope in various other transactions so that most of the cash transaction which gets unnoticed can be avoided.

Steps taken by the Government to overhaul the agriculture sector:

Let us take a look at new regulatory changes brought about by the Government of India beginning with the existing situation.

Presently, different states have different regulations for regulating agriculture produce. For example, Bihar has done away with APMC Act way back in 2006 whereas in case of Maharashtra, only perishables are allowed to be sold out of APMC by farmers from June, 2016 without paying cess or market fees. Some of the states like MP, Chhattisgarh and Gujarat kept perishables out of purview of APMCs since long back. In case of MP and Chhattisgarh, even in case of APMCs there are no commission agents. A few other states continued with complete control over farmers selling their agricultural produce by APMC Act. In many states selling of agricultural produce from other states is banned whereas in some other states selling of produce outside states is banned. These regulations in many cases are also unique to some specific agricultural produce as in case of cotton in Maharashtra. APMCs levy multiple fees, of substantial magnitude, that are non-transparent and it varies substantially in different states.

Just to convey a sense of magnitude and multiplicity of fees arising from the operation of APMCs, take an example of rice. In case of rice, these charges can be as high as 14.5% [excluding State Value added Tax (VAT)] in Andhra Pradesh and close to 10% in Odisha and Punjab whereas slightly more than 1% in case of Maharashtra. Moreover, though the market fee is collected just like a tax, the revenue earned by the APMCs does not go to the state exchequer and hence does not require the approval of state legislatures to utilize the funds so collected. Thus, APMC operations are hidden from scrutiny.

Many regulations in different states and within states were in place until the Government of India decided to do away with the right of APMCs to regulate trade outside their premises with the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 (FPTC Act). The preamble of the Act describes as under:

"An Act to provide for creation of ecosystem where the farmers and traders enjoy the freedom of choice relating to sale and purchase of farmers' produce which facilitates remunerative prices through competitive alternative trading channels; to promote efficient, transparent and barrier-free inter-state and intra-state trade and commerce of farmers' produce outside physical premises of markets or deemed markets notified under various State agricultural produce market legislations; to provide a facilitative framework for electronic trading and for matters connected therewith or incidental thereto."

The main objective of FPTC Act is to give options to farmers to sell their produce outside mandis. However, it is pertinent to note that FPTC Act does not affect the existence of mandis, it mere gives another option to farmers to directly sell their produce to corporates and avoid the middlemen operating through mandis. The FPTC does not impose any market fee or cess on any farmer or trader for trading the farm produce. Further, the FPTC Act also prescribes the mechanism to resolve the dispute between trader and farmer through conciliation board. In case the parties are unable to reach any settlement, the Sub-divisional Magistrate has the jurisdiction to resolve the dispute.

This has been the single most important change in the way agricultural produce marketing worked in India since independence. Previously, farm produce was sold only at notified wholesale markets, or mandis, run by APMCs. Each APMC has more than 7,000, licensed middlemen who would buy from farmers - at prices set by auction - before selling to institutional buyers like processors and big traders.

In order to implement the FPTC Act, the parliament has also come up with the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020 (FAPAFS Act). The objective of the FAPAFS Act reads as under:

"To provide for a national framework on farming agreements that protects and empowers farmers to engage with agri-business firms, processors, wholesalers, exporters or large retailers for farm services and sale of future farming produce at a mutually agreed remunerative price framework in a fair and transparent manner and for matters connected therewith or incidental thereto."

In simpler terms, this Act allows the farmers to enter into agreements to sell their products directly to retailers or corporates. As per FAPAFS Act, a farmer may enter into a written farming agreement in respect of any farming produce and such agreement may provide for the terms and conditions for supply of such produce, including the time of supply, quality, grade, standards, price and such other matters; and the terms related to supply of farm services. The Act does not remove the minimum support price requirements which are in existence. Further, the Act also prescribes the mechanism to resolve the dispute between trader and farmer through conciliation board. In case the parties are unable to reach any settlement, the Sub-divisional Magistrate has the jurisdiction to resolve the dispute.

It is pertinent to note that contract farming was in existence even before the FAPAFS Act came into existence. However, there was not any legislative framework to deal with issues related to contract farming. The parliament, by enacting FAPAFS Act, has tried to address various issues related to contract farming. FAPAFS Act puts obligation on the party entering into contract with farmers (Sponsor) for the fulfilment of legal obligations. Also, it shall be the responsibility of the Sponsor to take delivery of farm produce at the gate of farm and make all the arrangements to effectuate the delivery of produce. The legislature, while putting such provisions, has kept in mind that most of the farmers do not have enough resources and education to undertake such obligations. Further, protection has been given to the farmers by including the provision that contract farming agreement cannot be entered into for transfer of any rights related immovable property (land) or to build any permanent structure on the land of farmers, unless the Sponsor removes such permanent structure on the conclusion of contract. Moreover, both the parties entering into the contract may adopt a particular grade or quality of farm produce. In case, if a particular produce is not of mutually decided grade or quality, the Sponsor may refuse to accept the delivery of produce. In addition to above, any quantity of produce which is subject of agreement, will not be subject to any stock limit order issued by the Government.

The legislature has considered all the existing issues related to quality of produce, resources at the disposal of farmers and stock limit orders issued by the Government, existing under contract farming. In this way the legislature has tried to secure the interest of both the parties i.e. farmer and Sponsor, by putting contract farming under legislative framework.

These laws have changed the agri-marketing landscape. Now there is no restriction on farmers to sell their produce anywhere where prices are attractive in India. The so-called cartels of traders in APMCs will be eliminated by the proper implementation of these laws. All these laws provide impetus to attract much needed private capital in the agriculture industry and related infrastructure. These laws do not threaten the existence of mandis and farmers may still sell their produce in mandis as per their convenience. The APMC mandis will get a stiff competition from private players resulting into realisation of good market prices to farmers. And all of these will eventually culminate into reduced cost for consumers and increased realization of prices to farmers.

Maharashtra also provides alternative choice to farmers in terms of availability of Private Agricultural Markets (PML) and Direct Marketing Licenses (DML) by virtue of which many processors procure directly from farmers out of APMCs without paying APMC fees. This policy has been in place in Maharashtra for over a decade and half with over 60+ private markets and more than a thousand direct procurement centres.

In Maharashtra, a processor of agricultural produce is allowed to procure directly from the farmers and if it processes the procured produce in a specified timeline, it need not pay any APMC cess. Hence, it is incentivised in this fashion to process the agricultural produce immediately after procurement. This aids in value addition as well as generation of employment, reducing intermediaries and other agri-marketing costs eventually benefiting both farmers and consumers. Many of the DML holders are actually farmers producer companies which are owned by farmers benefiting them the most. Similarly, to break the unholy chain of trader cartels at APMCs, Maharashtra also allowed to set up private agricultural produce markets since 2005-06. The Agricultural Marketing Department of Maharashtra maintains complete records from registration of PML & DML to all the procurement done including price and number of farmers etc. All the purchase at these private markets and DMLs is still regulated by the Director, Agricultural marketing, Maharashtra. This ensures that a proper dispute resolution mechanism is in place and also timely payment is made to farmers. The regulation here provides that the payment to farmers has to be done on the same day he sells his produce or in case of some technical problems, within 2 days.

It is pertinent to note that even after the inception of PMLs & DMLs, none of the existing APMCs have been closed. In fact, an interaction with farmers confirms that the efficiency of these APMCs have gone up substantially due to competition.

The above discussed Acts were also accompanied by Essential commodities (Amendment) Act, 2020 (Amendment Act). The objective of the Essential Commodities Act, 1955 (ECA Act) is to provide, in the interest of the general public, for the control of the production, supply and distribution of, and trade and commerce, in essential commodities. The ECA Act was passed with the objective of ensuring the availability of essential commodities to consumers at fair price and preventing hoarding and black marketing of such essential commodities. As per the ECA Act, the essential commodities are those commodities as specified under the Schedule of the Act. Under Section 2A of the ECA Act, the Central government has the powers to declare any commodity as essential by adding it in the Schedule or to deregulate it by removing it from the Schedule.

The Amendment Act provides that supply of such foodstuffs, including cereals, pulses, potato, onions, edible oilseeds and oils, as the Central Government may, by notification in the Official Gazette, specify, may be regulated only under extraordinary circumstances which may include war, famine, extraordinary price rise and natural calamity of grave nature. The regulation of abovesaid food items only in exceptional circumstances may be proved to be a beneficial step to attract private investors in agriculture market and market related to storage facilities.

Further as per the Amendment Act, any action on imposing stock limit shall be based on price rise and an order for regulating stock limit of any agricultural produce may be issued under ECA only if there is hundred per cent. increase in the retail price of horticultural produce; or fifty percent. increase in the retail price of non-perishable agricultural foodstuffs, over the price prevailing immediately preceding twelve months, or average retail price of last five years, whichever is lower. This amendment reduces the uncertainty to some extent enabling an informed decision making for the businesses. Hence, one of the hindrances in attracting capital in the agriculture industry will be reduced.

And lastly, the Amendment Act provides that the processor of agricultural produce or value chain participant of any agricultural produce; are exempted from the order regulating stock limit, if the stock limit of such person does not exceed the overall ceiling of installed capacity of processing, or the demand for export in case of an exporter. This step taken by the amendment distinguishes between actual hoarders and traders genuinely holding stocks owing to the nature of their business. It may prove to be a very useful step in increasing the profits of genuine organisations such as traders and exporters.

Constitutionality of farm laws:

1. Federalism

The Constitution of India stipulates a federal structure i.e. division of powers between Centre and State. In order to implement the federal structure, the Seventh Schedule of the Constitution divides the subject matter on which state legislature and parliament can legislate. The Seventh Schedule has provided with three lists namely Union List, State List and Concurrent List.

Only parliament can legislate on matters provided in the Union List and only state legislature can legislate on matters provided in State list. With respect to matters covered under Concurrent List, both state legislature and parliament have power to legislate. However, the law made by parliament with respect to any subject matter covered under Concurrent List prevails over the law made by state legislature on the same subject matter.

Entry 14 of the State List deals with 'agriculture, including agricultural education and research, protection against pests and prevention of plant diseases. Further, entry 18 and 28 deal with 'agriculture land' and 'market' respectively. The above discussed farms laws seem to fall within these entries and hence, only the state legislature can make laws on the same. The state may argue that the farm laws passed by parliament are beyond the legislative competence of the parliament as the subject matter of farm laws fall within the State List.

Further, entry 33 of Concurrent List provides that parliament can make laws on matters of trade and commerce, supply and distribution of industrial products in the public interest. The Centre may argue that it has power to pass the farm laws under entry 33 of Concurrent List. It may further argue that the pith and substance of the farms laws is trade and commerce lying in entry 33 of Concurrent List and there is merely incidental encroachment on subject matter lying under entry 14, 18 and 28.

However, the issue related to legislative competence is highly litigative and can only be decided by the Apex Court where the matter is currently pending.

2. Dispute resolution

Dispute resolution mechanism provided by FPTC Act and FAPAFS Act (Both Acts) has been another bone of contention which requires attention of the Courts. As reiterated earlier, Both Acts prescribes the mechanism to resolve the dispute between trader and farmer through conciliation board. In case the parties are unable to reach any settlement, the Sub-divisional Magistrate has the jurisdiction to resolve the dispute.

Further, Both Acts also bar the jurisdiction of Civil Courts from entertaining any suit or proceeding related to any subject matter, the cognizance of which can be taken by Sub-Divisional Magistrate. Hence, the jurisdiction to try disputes arising under Both Act has been given to Sub-Divisional Magistrate.

Time and again, the Supreme Court has emphasized that access to justice is part of Article 14 and 21 of the Constitution. In the case of Anita Kushwaha vs Pushap Sudan 2016 8 SCC 509, the Hon'ble Court held that one of the most fundamental requirements for providing to the citizens access to justice is to set up an adjudicatory mechanism whether described as a court, tribunal, commission of authority or called by any other name whatsoever, where a citizen can agitate his grievance and seek adjudication of what he may perceive as a breach of his right by another citizen or by the State or any one of its instrumentalities.in order that the right of a citizen to access justice is protected, the mechanism so provided must not only be effective but must also be just, fair and objective in its approach. So also, the procedure which the court, Tribunal or Authority may adopt for adjudication, must, in itself be just and fair and in keeping with the well-recognized principles of natural justice.

Disputes arising under both the Acts may affect the civil and contractual right of parties. Therefore, such disputes must be resolved by any judicial body including Courts or Tribunals as the case may be. Further, the non-judicial bodies including civil servants cannot be given such a huge task of providing justice to farmers, when the matter may have civil and contractual ramifications. On many occasions civil servants are accused of corruption and may not have integrity as required to adjudicate a dispute. In the light of above judgment, it can be contended that the dispute resolution mechanism provided by both the Acts is not fair and effective.

Why there is so much protest against farm laws?

There is divergence of opinions on the efficacies of farms laws. On one hand some experts are hailing these laws as revolutionary while on the other hand some farmers and experts are touting these laws to be oppressive for farmers. Those touting these laws as oppressive, have been protesting against the laws and asking for the withdrawal of the same. Let's understand the reasons because of which these laws have been facing agitation. Following are the three grounds of contention ensuing protests across the nation-

1. Extinction of APMC mandis

It is the contention of the stakeholders that the enforcement of farm laws will pave the way for extinction of existing APMC mandis. After the mandis become extinct, the corporates will take over the agriculture markets.

However, it is pertinent to note that neither FPTC Act nor FAPAFS Act is creating any hindrance for the functioning of APMC mandis. These Acts are merely providing an alternative option to farmers to sell their produce outside mandis as a result of which the mandis will get tough competition from the farmers. In this way, the farmers can get good prices not only from the private players but also from the mandis.

2. Takeover of market by corporates

It is another contention of the stakeholders that initially the corporates will give good prices to the farmers and after existing system of mandis get destroyed, the farmers will be at the mercy of big corporates. After the extinction of mandis, the farmers will be left with only one choice i.e. to sell their produce to corporates on their terms. In this way, farmers will become slave of corporates even after working on their land.

As stated earlier, the farmers are still left with the option of selling their produce at mandis. FAPAFS act has merely recognised the existing contract farming and brought it under the legislative framework. As discussed earlier, FAPAFS Act has also provided with various protection mechanism so that the interest of farmers especially small ones can be protected. Therefore, it is a mere fear without any basis among the farmers that the corporates will take over the agricultural market.

3. No fixation of MSP

The last contention of the stakeholders is that farms laws have removed the MSP. Therefore, the farmers will be forced to sell the produce at lower prices. The stakeholders are asserting that there should be law fixing MSP for agriculture produce.

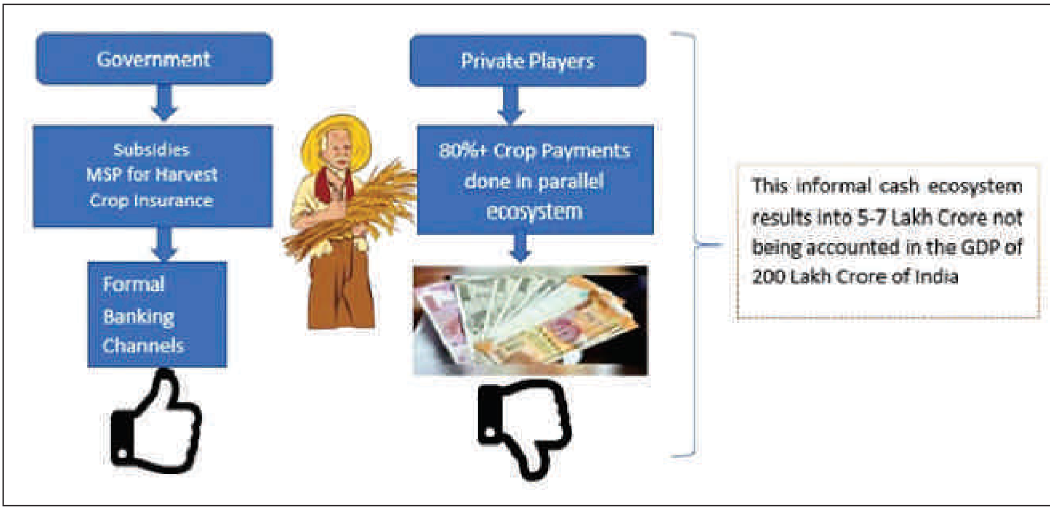
However, it is pertinent to note that fixing MSP does not have advantages in all the situations. Further, fixing the MSP allows the traders to form cartels and not to buy any produce above MSP. Thereafter, these traders sell the produce at prices above MSP and devoid farmers of their fare share. Let's understand the extent to which MSP is required.

The prices of agricultural commodities are inherently unstable, primarily due to the variation in their supply, lack of market integration and information asymmetry. A good harvest of a commodity in any year results in a sharp fall in the price of that commodity during that year which in turn will have an adverse impact on the future supply as farmers withdraw from sowing that crop in the next / following years. This, then, causes paucity of supply next year. Also, when prices of a commodity fall sharply, it becomes very difficult for farmers to even recover their cost in some cases. This puts them in a vicious circle of loss, debt and interest. Loss to such an extent that even a good remunerative year later may not be sufficient to take care of both interest and debt particularly for farmers without irrigation. To save them from such a situation Government offers them MSP at which Govt agencies will procure the agricultural produce, if market prices prevails below the MSP level. Given the resources at Government's disposal, most of the times their interference is insufficient in supporting all the farmers. Actual beneficiaries of this mechanism are barely 6% of all the farmers. Though it does indirectly impact market price, the impact is not meaningful in case if the overall production of that commodity is too high. Currently MSP is declared for 23 crops only. Hence, this mechanism is not available for all agricultural commodities.

It has to be kept in mind that that MSP for any commodity is the function of different market forces such as demand & supply, data availability, cost of storage, constant supply of such commodity. Government always declare the MSP after keeping in mind all the above said factors. As stated earlier, not all the crops and produce including fruits and many vegetables are part of items for which MSP is declared. If all the left-out commodities are included in MSP, it will cause a huge burden on Government revenue. Therefore, it is always preferable if the prices are decided according to the demand & supply of any commodity. In this manner, a huge portion of government revenue can be saved. Also, the farmers will be able to get the prices higher than MSP as per the demand and supply of any farming produce. And the traders will be forced to buy the produce as per the existing market conditions but not at fixed MSP after forming the cartel. Hence, it is always advisable to declare MSP only in circumstances beyond the control of market forces, when the chain of demand & supply is threatened because of unforeseen circumstances.

Suggestions regarding the additional measures to deal with problems of supply chain:

There was a time when farmers from rural far off places did not have access to the banking system. In those days, even if someone had a bank account, clearing of cheques used to take weeks. Hence, cash payment was the only feasible way to deal in agricultural transactions. But now with the evolution of the banking system and advent of technology, the existence of the Rule 6DD(e) of ITA Rules comes into question. More than 39 crore accounts have been opened under the Jan Dhan Yojana. Farmers receive payment under more than 16 schemes via DBT. Not only farmers but even landless labourers receive their LPG subsidy via DBT. More than 10 crore farmers are receiving PM Kisan payment of ₹ 6000 each annually via DBT. If one sells his or her agricultural produce to any Government agencies like NAFED at MSP, he compulsorily receives payment via bank. If one is a sugarcane farmer selling cane to sugar mills, the sugar mill will pay via the bank. Even payment for crop insurance schemes are received via bank in case of crop loss. If one sells milk to cooperative milk dairy, one will receive the payment of the same (less than ₹ 1000 per month) via bank. But when it comes to sale of agricultural produce to private traders, they are allowed to make payment in cash of any amount.



If cash payment to farmers is done away with, the problem of pilferage will also die down forever. The traders of these stolen goods will have to take payment via the bank. There will be footprints of the transactions in the form of bank entries and the traders will have little explanation as to how he got hold of the produce. In essence, sale of these stolen commodities will not be an easy task.

Such illegal sale is not going to stop completely; however, change as suggested above may put a check on such sale.

As explained earlier, one of the biggest problems faced by both businesses and the Government is availability of accurate information/data. With this small change, the accurate data of daily arrivals will be available. In Maharashtra, the APMCs, private markets and DMLs have to upload data of arrivals at Maharashtra State Agricultural Marketing Board (MSAMB) website. This data is not reliable as not all the arrivals are accounted for accurately in the books, on the day of arrival. This happens because cash payment allows traders to record the actual purchase on a day of their choice and at a price of their choice instead of recording actual price on actual day. This practice distorts the data. If cash payment is done away with, such manipulation of data will not be possible as payment for the arrivals will be done via the bank. Simply checking books of accounts of any trader or processor can give an accurate picture of stock available with him at any point of time. In fact, as soon as the arrivals come on record, it is very easy to trace its further journey by a simple system like e-invoice given under Goods and Services Tax Act. At any given point of time, any Government department can know the exact position of the stock in the system with accuracy not imagined before. The efficiency and impact of Government policies will be exactly as desired. There always have been intelligent people formulating various Government policies. However, over decades, we have seen the ineffectiveness of these policies which was because of incorrect data used.

As of now traders can inflate the purchase price of agricultural commodities as they like since original purchase is done by cash payment. Hence, this allows them to plan their tax liabilities as they wish. This makes it easier for them to make all other expenses like freight payment, employees' salaries, vendors' payment in cash keeping all out of the tax net reducing their compliance burden. The employees are deprived of their rightful benefits and Government is deprived of tax payment. Even if we assume that only 20% of the overall agri economy works in this manner, it is almost 2% of the overall GDP of the country. Is it huge? Just imagine.

Therefore, it is suggested to amend the Rule 6DD€ of ITA Rules. Various benefits of amendments to Rule 6DD(e) of ITA Rules can be summarised as below:

- Accurate recording of the purchase by traders from farmers.
- Removal of illegal intermediaries.
- Removal of illegal margins of legal intermediaries.
- Easier for the Government to monitor production, movement & stock of agricultural commodities.
- Availability of accurate data aids efficient policy making.
- Attracting investment in agricultural supply chain.
- Making processing of agricultural commodities profitable attracting capital as well reducing wastage of agricultural produce.
- Making export of agricultural commodities competitive.
- Improvement in income of farmers by improving their earnings
- Reduction in inflation due to efficient supply chain, higher processing, reduced wastages and removal of illegal intermediaries.

Way forward to deal with challenges associated with agriculture:

Agriculture is one of the most important sectors of the economy as it not only feeds the population of this country but also gives employment to more than 50% workforce. Also, the contribution of agriculture to GDP has been immense. Therefore, it becomes important to work towards removing the challenges plaguing the agriculture industry. Following are the few suggestions to make the optimal use of the agriculture sector for the betterment of all-

- There has to be adoption of systematic and uniform methodology for collection of data across the country. As discussed earlier, reliable data plays a significant role for the purposes of ascertaining demand & supply, devising policy, declaring MSP and providing incentives. Hence, collection of reliable data becomes really important for the well being of agriculture sector. Various agencies, equipped with resources, can be appointed solely for the purpose of collecting data. Further, the exercise of data collection should be done with the help of technology. Technology may minimise the human error and result in collection of efficient and reliable data.

- Most of the farmers working in agriculture sector do not have enough education to understand the intricacies of the sector. It becomes imperative for the government to run programs and campaign to educate farmers on various aspects of agriculture such as crops, fertilisers, seeds, supply chain, innovative ways of production, market, loan & debt management etc.

- In most parts of India, farmers still adopt the old methods or technique of cultivation. With the advent of technology, there has been evolution of various methods to make the farming less costly and more productive. By adopting the modern techniques, the farmers may increase their income with reduced labour requirement. For instance, use of renewable sources of energy, fertilisers deep placement, green houses, etc. have shown increased productivity with reduced costs. However, it requires the assistance of government as well private institutions to make farmers aware of such modern techniques.

- As discussed before, the FPTP Act provides an alternative way to connect corporates directly with the farmers through contract farming. The Government can invest in more such initiatives to give farmers more options to directly connect with consumers. For instance, an online platform can be created where farmers can directly sell the perishable commodities to the end consumers in the local areas. This would increase the income of farmers by removing the middlemen and the quality of perishables would remain intact.

- As discussed earlier, there is lack of investment in agricultural storage infrastructure. Neither the Government nor the private players have invested enough to create required storage facilities. As a result of which, the agricultural commodities either get rotten or be sold at lower prices by farmers. The Government should incentivise the building of such infrastructure including warehouses and cold stores and bring private investment to build infrastructure.

- As discussed earlier, the use of cash by traders not only remains untraceable but also devoid the farmers of their fair share. As reiterated earlier, more than 39 crores bank accounts have been opened under Jan Dhan Yojana. Further, the Reserve Bank of India has come up with the unique idea of payment banks with the objective of inclusion of small savings accounts, low income households, small businesses and unorganised sector entities in banking sector. Therefore, it would be highly advisable to remove the use of cash as far as possible after considering the interest of small farmers not having access to banking facilities. Since the banking sector has become accessible to a majority of the individuals, the more reliance can be placed on DBT.

- There has been lack of transparency at each stage in agricultural sector. Since most of the traders, buyers, middleman remain out of the formal economy, not only the Government's exchequer but also the farmer's income is affected. Therefore, the Government should come up with rules and regulations to ensure transparency in supply chain. For instance, it can be made mandatory for traders to get registration to engage in trading of farm produce, to maintain books of accounts and to hold limited stocks as per their business operations. Further, as discussed earlier, the Government appointed officials come up with data only on the basis of field observation. Such reckless behaviour affects the whole agriculture sector resulting into collection of unreliable data. Therefore, the Government should put a check on officials appointed to gather data so that reliable data without manipulation can be gathered. In other words, the Government should strengthen the capabilities of existing government machinery and devise a mechanism to put a check on malpractices.

- Lastly, the Government should invest in river linkage projects and projects related to construction of dams, canal and irrigation, so that the problems related to uneven availability of water resources can be diminished. As reiterated earlier, the availability of water resources is uneven across the country. Therefore, the efficient and well-planned channelization of water bodies is highly imperative. By linking the rivers across the country and building dams and canals, water can be made easily available to draught hit areas. The farmers will no longer require to wait for good monsoon and hence, the cultivation will improve.

ACCOUNTING & AUDITING RELATED ASPECT OF AGRICULTURAL INDUSTRY

Overview of agricultural accounting including ERPs for farm accounting:

According to the Webster's New International Dictionary, agriculture is an art or science of cultivating the ground, including rearing and management of livestock, husbandry, farming, etc. and also including in its broad sense farming, horticulture, forestry, butter and cheese-making etc. In other words, it is the cultivation of plants, animals and other life forms for food, clothing and other products used day-to-day life.

Thus, farming has become mixed farming. Therefore, farm accounting becomes more complex than other businesses when it comes to assets, liabilities, costs and revenue. The farm accounting is a technique of using accounting data for costing and profitability analysis of each farming activity and corresponding decision making.

Farm accounting or accounting for agricultural farms is the application of accounting rules in respect of agricultural operations. There are a few substantial differences between agricultural accounting and business accounting, Agriculture accounting prefers cash basis of accounting due to its simplicity. Business accounting follows accrual methods as opposed to cash basis. This technique of accounting is more complicated, but it allows for consistency in financial reporting across companies. In accrual basis of accounting, the timing of cash collection and expenditure is not a deciding factor when recording revenue and expense.

As in accounting for industrial and commercial concerns, the main object of farm accounts is to ascertain operating results of the agriculture. In addition to this prime object, other specific objectives of farm accounting are as follows:

- Record keeping also provides the state of financial affairs of the farm. The family nature of many farms makes it essential that a business like record be kept so that equitable distribution of income and expense can be made. Such a record should establish sound basis for distribution of property in the event of death or any other reason which causes redistribution of the assets among the various members of the family.

- To satisfy external stakeholders such as various Governmental agencies and lending agencies such as banks, mortgage grantors or landlords, etc.

- To facilitate unit costing so that the strengths and weaknesses of individual production units can be analysed. These data help to determine which of the operations should be emphasized in order to produce the optimum income from the capital invested.

Increasing emphasis in recent years has been placed upon the marginal usage of records. Farm organizations as well as agricultural universities have compiled information collected from a sampling of farmers in order to better advise them in the management of their operations.

With the availability of mobile connections and internet, and especially cloud computing, farmers can take advantage of the latest farming software. Good farm accounting software will help farmers in keeping all the records in an efficient way and facilitate informed decisions.

Different aspects in agricultural accounting:

To achieve the objectives of farm accounting, it is necessary to classify various accounts properly and maintain a complete set of books of accounts. Sales and receipts and other expenses must be classified according to activities and departments.

1. **Transactions,** relating to farming activities may be categorized into following:

    - Cash
    - Credit
    - Barter Exchange – These are transactions such as exchange of animal labour for human labour, exchange of seeds for output, etc. which are normally recorded at opportunity cost – the price in the open market. Proper documentation should be maintained to demonstrate the open market price.
    - Owners' efforts – These are transactions between the owner and the farm at an arm length value. Some examples of such transactions are labour provided by family members, consumption of output by the owner. etc.

2. Books of Accounts

- Columnar Cash Book - Analytical columnar cash book helps farmer to maintain the books of accounts in a concise manner.
- Stock Register, which shows input and output of goods, sale and inventory balances.
- Debtors and Creditors Register.
- Fixed Assets Register contains details of cost of assets, depreciation and balance of assets.

- Loan Register containing record of loans, details of interest etc.
- Record of Owners' transactions

3. Ledger Accounts

Ledger Accounts may be classified into following main headings:

- Production Inventories- crops
- Livestock Inventories – poultry and dairy etc.
- Sales and production related material and consumables.
- Immovable and movable assets such as bearer plants, buildings, farm equipment etc.
- General Expenditure Items such as rent, electricity, fuel, oil and grease for operating the machines and equipment, labour cost, repairs, taxes etc.

4. Apportionment basis for Common Costs

The conventional methods of cost absorption and allocation may not be suitable as farming enterprises have some unique cost components when compared to other business entities. Difficulties in allocating joint costs also increase due to the complex patterns of biological assets and associated costs thereto.

Common costs like irrigation, services of agricultural machinery, implements, depreciation, interest on capital etc. cannot be classified simply by nomenclature. Common costs of the agricultural farms are required to be suitably apportioned among the crops or other biological produce for which such costs were incurred. The common cost should be suitably allocated on some accepted basis. For example-

- Depreciation on farm building – basis total area occupied/utilised
- Depreciation and repairs for farm machinery, tools and implements – basis time of usage,
- Maintenance of farm animal cost – basis time of usage.

5. Government grant/subsidy accounting

Farming is a critical field. It is essential for feeding the population. For this reason, Government incentivises farmers by providing them subsidies, to help them out during the critical periods by making particular types of farming sustaining and attractive, and ultimately ensuring that the country never runs out of food.

These subsidies vary from country to country and depend upon the respective policies. If subsidy policy is wrong, it leads to excess production and thereby lower prices. Good examples of this are scenarios called 'butter mountains' and 'wine lakes' in Europe around the year 2000.

6. Valuation strategies of different accounting items as per accounting standards

The following paragraphs give a fair idea about the valuation of different items in the context of agriculture accounting. Reference to particular accounting standards is for reference only.

i. Balance Sheet - Assets

- Agricultural Machinery and Equipment (Non-Current Asset):
  a) Cost Less Depreciation – when items are purchased to be used for a long period of time and for which there is practically no market for resale;.
  b) Market prices or on the basis of depreciation and repairs – when the item is an implement.
  c) Income Capitalization Value – when purchase of property is an income for the future in real terms.
- Farm Building (Non-Current Asset): It is measured at cost of acquisition as per Ind AS 16.
- Agricultural Land (Non-Current Asset):
  a) Property in terms of AS 16 - Cost model, or revalued model
  b) Investment property and giving away as rent or as finance lease - At cost price, or fair value less cost on depreciation and impairment, as per Ind AS 40.
- Cost on Land Improvements:
  a) Capital nature - actual amount paid and other costs incurred in respect of such improvement including cost of captive consumption of material, labour etc.
  b) Revenue nature, purchase price including transport charges.
- Government Grants:
  a) Capital in nature – These are reduced from the cost of acquisition of asset to which they relate.

b) Revenue in nature – these are recognised in Profit & loss account whenever the conditions for their receipt are met and right to receive becomes certain.

- Livestock (Non-Current Asset): Livestock can be either bearer (Ind AS 41) or consumable asset (Ind AS 16). It can be measured at the market value depending on its age.
- Bearer Plants (Non-Current Asset): Ind AS 41.5 defines it as a living plant that-

  a) is used in the production or supply of agricultural produce,

  b) is expected to bear produce for more than one period, and

  c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Ind AS-16 prescribes either cost or revaluation model for its valuation.

- Biological Assets Physically Attached to Land (Current or Non-Current Asset): As per Ind AS 41.25 such assets are measured as the value of combined assets less fair value of raw land and land improvements, when no separate market for it exists.
- Inventory of Agricultural Produce (Current Asset): It is to be valued at fair value less cost to sell at the point of harvest as per Ind AS 41. According to Ind AS 2.20, it can also be measured at cost at that date. Sometimes it is advisable that present market value depending on the plant stage growth is appropriate for crops grown in the field.
- Consumable Biological Asset (Current Asset): Ind AS 41 prescribes to measure it at fair value less cost to sell. When quoted market prices are unavailable and determination of alternative fair value is clearly unreliable for the asset, then it can also be measured at cost of the asset less accumulated depreciation and accumulated impairment losses.

ii. Profit & Loss Account – Income & Expenditure

- Sale of Agricultural Produce (Revenue): The net selling price, i.e., selling price less cost of marketing for such items.
- Sale of By-Product (Revenue): At the post-harvest prices prevailing in the market
- Government Grants (Revenue Income): When grants are related to biological assets and grants becomes receivable, and then it is to be recognized in profit and loss account as per Ind AS 41.34. Ind

AS 41.35 mentions that if a grant is conditional, it is recognized in profit or loss account, and only when, the conditions attached to the Government grant are met. When it is related to bearer plants, Ind AS 20 recognizes it in profit or loss over the period. Export incentives and other subsidies by Government are recognised whenever the conditions are met and the right to receive becomes certain.

- Future Contracts for Selling of Biological Assets or Agricultural Produce (Revenue Income): The fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract as per Ind AS 41.16. In case of onerous contract, Ind AS 37 is applicable.
- Produce given away as Free of Cost item: Such items are measured at their present market value.
- Gain on change in fair value (Revenue): As per Ind AS 41.26, a gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.
- Rent on Land (Revenue Expenditure): Such cost is actual rent paid when land is taken on lease. In case of owned land, opportunity cost in form of notional interest charged on value of land may be included for costing and profitability purposes.
- Cost of Seeds and other consumables (Revenue Expenditure): When seeds and other consumables such as fertilizers is purchased from the market then purchase cost is considered for accounting. In the case of homegrown seeds or fertilizers, present market value or transfer price for captive consumption can be considered.
- Human/Livestock Labour Cost (Hired or Own) (Revenue Expenditure): Human/livestock labour can be either hired or owned. In case of owned labour, present market value for the similar type of hired labour can be considered. For livestock labour rate, the rate can be market rate or inhouse maintenance rate
- Machine Labour Cost (Hired or Own) (Expenses): The cost includes the rate of hire charges when the machine is hired or operational expenditure per hour for owned machinery.
- Depreciation Cost on Farm Machinery (Revenue Expenditure):

  (a) Straight line method,

  (b) written down value method

(c) Expected life or useful life is the useful life - Companies Act, 2013 prescribes 8 years of useful life for motor tractors, harvesting combines and heavy vehicles.

Residual value or salvage value is 5% of cost of acquisition for all machinery as recommended by Companies Act, 2013.

Some critical aspects in farm accounting:

1. Valuation at fair value

Valuation of inventory of biological produce is another major differentiator between agricultural and other businesses. In agriculture accounting, biological assets are allowed to be valued using market values minus cost to sell.

As per IAS-41, biological assets are to be measured on initial recognition and at each balance sheet date at their fair value less costs to sell, except in limited circumstances.

Costs to sell are the incremental costs incurred in selling the asset. They also include duties, taxes and fees paid to various authorities, commissions paid to brokers and dealers etc. Costs to sell do not include the cost of transporting the asset to market (as this is included in its fair value) or income taxes and finance costs.

Now let us look in detail regarding arguments in favour and opposite for adoption of fair value of accounting.

i. Valuation of biological assets at fair value

Accurate determination of fair value is possible only in an active market environment. In India, however, variety of factors affect the true characteristics of an active market. These factors are presence of intermediaries, lack of complete and correct market information for the farmers and intervention of Government policies related to agriculture produce. Many times, farmers sell their produce at throwaway prices in distress. In such a situation, selling price cannot be considered for fair value determination.

ii. Valuation of cost of owners' efforts or owned assets

A farmer along with its family which in Indian context often includes extended family engages in the farming activity in different roles spread across different functions such as production, sales, processing, support functions etc. Apart from these some of the other examples are rent of owned land, interest on fixed capital etc.

In general, accounting principles do not include abovementioned costs. But, in case of agriculture, such costs cannot be ignored, as these activities are carried out in the production/cultivation process. Therefore, unlike conventional accounting principles, it is desirable to account for such imputed costs to give a true and fair view of financial performance and position.

iii. Accounting of captive consumption of agricultural produce

Indian farmer uses a major part of production for his own consumption. Measuring such consumption is a difficult task due to the presence of variety of consumption pattern. Therefore, it can be valued at the prevailing market price of the respective commodity or cost of production and may be shown separately as owner's consumption. Alternatively, it can also be treated as owner's drawings.

Following aspects are also not covered exhaustively by existing accounting standards and hence very little standardisation is available in terms of accounting guidance.

2. Lease Accounting

Leasing of land, biological assets such as farm animals and agricultural equipment is very common in the Indian agricultural production system. Ind AS 17.2 defines its scope which excludes lease accounting for biological assets in the books of lessees under finance lease and also by lessors under operating lease.

3. Treatment of future/forward arrangements in respect of biological produce sale

Ind AS 41 and Ind AS 37 describe the accounting treatment of future/forward agreement but in a limited manner.

4. Accounting for Losses

Farming is dependent on weather. The weather sometimes affects it adversely. A hot, dry summer might be great for cotton but it can be catastrophic for dairy farmers. Unseasonal storms can destroy an entire crop and unexpected rain can leave crops rotting in the fields.

It's important to account for such losses in books of accounts. Such losses can be tax deductible and will reduce overall tax liability.

Auditing:

Different aspects in Auditing of Farm Transactions

Following are important aspects to be covered during audit of farm transactions. The auditing procedures will be dependent upon the accounting policy following by the enterprise based on criterion given in foregoing paragraphs. The nature of auditing processes however remains the same and hence, for sake of brevity, have not been detailed out here.

- Biological Assets –
  - a) Uncertainty in production
  - b) Variety of Grades of Produce
- Uncertainty in standardised Fair Market Value (FMV) as FMV varies basis quality of produce, location etc.
- Significant volume of cash transactions which are susceptible to misreporting
- Receivables of Government subsidy
- Treatment of operating cycle
- Production and inventory accounting
- Revenue recognition
- Fixed assets and depreciation
  - a) Land & Land Development Expenses: A business may purchase land for cultivation. A lot of money may have to be spent by the business on cleaning, levelling the land, providing drainage, irrigation facilities etc. before the land can be used for cultivation. All these expenses are termed as "Land Development Expenses" and should preferable be added to the cost of land.
  - b) Buildings
  - c) Tractors, trucks, harvesting equipment and other farm machinery Hand tools, machine tools and repair equipment
  - d) Deadstock
- Biological assets include the following.
  - a) Sheep, pigs, beef cattle, poultry and fish
  - b) Dairy cows

c) Trees in a forest.

d) Plants for harvest (for example, wheat and vegetables).

e) Trees, plants and bushes from which agricultural produce is harvested (for example, fruit trees, vines and tea bushes).

- Non-current farm assets
- Borrowings, loans & advances
- Receivables and payables
- Derivatives and hedging transactions

Conclusion:

It can be said that it has now become imperative for all the agricultural units to adopt accounting tools, methods and techniques. With the increased use of better seeds, fertilizers and other inputs and improvement in the institutional factors, agriculture in India can be modernized by developing proper accounting system covering financial, costing and management aspects of the farms.

Aspects Related to Taxation: Direct and Indirect Tax
Part I – Direct Tax

Agriculture is said to be the primary occupation in India. It is usually the only source of income for the large rural population in India. The country as a whole is entirely dependent on agriculture for its basic food requirements. The Government has numerous schemes, policies and other measures to promote growth in this sector – one of them being an exemption to income tax.

Meaning of Agricultural Income:

The Income Tax Act, 1961 (ITA) has its own definition of agricultural income which constitutes the following 3 main activities:

1. **Rent or revenue received from agricultural land situated in India**

   Rent is the consideration for the right to use the land. The scope of the possible sources of income that can be derived from land is many. An example would be fees received for renewal of lease of land. However, it is pertinent to note that revenue from land does not include consideration received on sale of land.

2. **Income derived from agricultural land in the following ways**

   a) **Agriculture**

   The meaning of agriculture though not covered in the Act has been given down by the Supreme Court in the case of CIT v. Raja Benoy Kumar Sahas Roy, **(1957) 32 ITR 466 (SC)** wherein the term 'agriculture' has been explained to consist of two types of operations –

   The **basic operations** would include cultivation of the land and consequently tilling of the land, sowing of seeds, planting and all such operations that require the human skill and effort directly on the land itself.

   The **subsequent operations** would include operations that are carried out for growth and preservation of the produce like weeding, digging soil around the crops grown etc and also those operations which would make the produce fit for use in the market like tending, pruning, cutting, harvesting, etc. Income derived from saplings or seedlings grown in a nursery would also be considered to be agricultural income whether or not the basic operations were carried out on land.

   b) **Through performance of a process by the cultivator or the receiver of rent in kind that results in the agricultural produce being fit to be taken to the market**

Such processes involve manual or mechanical operations that are ordinarily employed to make the agricultural produce fit for the market and the original character of such produce is retained.

c) Through sale of such agricultural produce

Where the produce does not undergo ordinary processes employed to become marketable, the income arising on sale would generally be partly agricultural (exempt) income and part of it will be non-agricultural (taxable) income.

The ITA has prescribed rules to make this bifurcation regarding agricultural and non-agricultural produce for products like tea, coffee, rubber, etc.

3. Income derived from farm building required for agricultural operations

The conditions for classifying income derived from farm building as agricultural income are as follows:

a) The building should be on or in immediate vicinity of the agricultural land and is one which the receiver of rent or revenue or the cultivator, by reason of his connection with the land, requires the building as a house to stay or as a storehouse, or uses it for these kind of situations.

b) Either of the following two conditions should be satisfied:

The land is assessed by either land revenue or a local rate assessed and collected by Government officers; or

If the above condition is not satisfied, the land should not be located within the following region:

Aerial distance from municipality*	Population as per last preceding census.
Within 2 kms	10,000 to 1,00,000
Within 6 kms	1,00,000 to 10,00,000
Within 8 kms	> ₹ 10,00,000

*Municipality includes municipal corporation, notified area committee, town area committee, town committee and cantonment board.

Note: Even where the local population is < 10,000, the land should also not be situated within the jurisdiction of the local municipality or cantonment board.

In cases where the activities have only some distant relation to land like dairy farming, breeding, rearing of livestock, poultry farming, etc., they do not form a part of agriculture income.

Further agricultural operations include cultivation of land, tilling of land, sowing of seeds, planting, weeding, tending, pruning, cutting, and harvesting.

Taxation of agricultural income:

As discussed above, agricultural income is exempt from income tax. However, the ITA Act has laid down a method to indirectly tax such income. This method or concept may be called as the partial integration of agricultural income with non-agricultural income. It aims at taxing the non-agricultural income at higher rates of tax.

This method is applicable when the following conditions are met:

- Individuals, HUFs, AOPs, BOIs and artificial juridical persons have to compulsorily calculate their taxable income using this method. Thus, company, firm/LLP, co-operative society and local authority are excluded from using this method.
- Net agricultural income is greater than ₹ 5,000 during the year; and
- Non-agricultural income is:
  a) Greater than ₹ 2,50,000 for individuals below 60 years of age and all other applicable persons.
  b) Greater than ₹ 3,00,000 for individuals between 60-80 years of age.
  c) Greater than ₹ 5,00,000 for individuals above 80 years of age.

In simple terms, the non-agricultural income should be greater than the maximum amount not chargeable to tax (as per the slab rates).

Calculation of tax with agricultural income

Step 1 : Calculate tax on Non Agricultural Income + Net Agricultural Income

Step 2: Calculate tax on Net Agricultural Income + Maximum exemption limit

Step 3: Calculate final tax as tax computed in step 1-tax Computed in step 2 plus surcharge, education Cess, if any

Non-agricultural income:

Certain activities even if they are agriculture-related works, income generated from them is categorised as non-agricultural income and is taxable.

1. **Heavy processing**

   When an agricultural produce undergoes a process to become marketable, the final product is categorised as non-agricultural. For example, the production of tea, coffee, rubber, etc. Also, if a farmer sells processed items without carrying out any agricultural or processing operations, the income would be categorised as business income.

2. **Breeding of livestock**

   This includes dairy animals, fishery and poultry farming on agricultural land.

3. **Tree plantation**

   Trees grown on farmland only to be used as timber falls in the non-agriculture category, as no active agricultural business has been concluded in the entire process.

4. **Trading**

   Those who earn their income by trading agricultural produce have to pay standard taxes on their income.

5. **Export**

   Income earned from the export of agricultural produce, could be exempt from income tax if certain conditions are satisfied.

Frequently Asked Questions:

- **Is the Income earned from "contract farming" business taxable?**

  — If you are farmer cultivating crop for a company or firm than the income is not taxable but if you are a company or a firm getting crop cultivated by the farmers under "contract farming" agreement than all the income is taxable. In a recent judgment on petitions by Namdhari Seeds Pvt. Ltd., a division bench of the Karnataka High Court held that such income of agri-business firms come under the purview of business income which attracts tax under the provisions of the ITA. In this case, the firm had claimed as agricultural income, the amount generated by it from the sale of hybrid seeds grown on land belonging to various persons under "contract farming" agreements. The firm contended that income derived from agricultural land qualifies as agricultural income and it is not necessary to own land to derive agricultural income. Though the Income Tax Department had rejected this claim, the Income Tax Appellate Tribunal had, in its 2006 order, treated 90 per cent of the firm's income as agricultural income. However, the High Court pointed out that the entire terms of agreement would indicate that the foundation seeds grown by the farmer would be purchased by the firm at the end for a certain price provided seeds fulfilled the specifications as per the agreement. The Court held as under:

"It (agreement) is nothing short of a fertile womb being offered by a surrogate mother for the growth of a child of someone else. The assessee firm supervises and oversees the sowing, cultivation right from the process of sowing till the end to get the qualified foundation seeds to carry on its trade in selling certified seeds. The firm also provides scientific advice. However, the firm is not carrying out any of the normal activities of farming. Such input or scientific method in giving advice to the farmer cannot be termed as either basic agricultural operation or subsequent operation ordinarily employed by the farmer or agriculturist. If the basic operations of agriculture are not carried out by the firm, then the harvested foundation seeds purchased by it, and converting them to certification seeds also cannot be termed as an integral part of the foundation activity of agriculture,"

Further, in the case of Advanta India Ltd., Bangalore vs Assessee, ITA No.819 & 820/Bang/2010, it was held as under:

"If we examine the operations carried out by the assessee in the previous year relevant to the assessment year in appeal, we find that the production of Basic Seeds as well as Hybrid Seeds are the results of basic of agricultural operations carried on by the assessee company in its own land as well as in leasehold land. The method of contract farming does not take away the character of the basic operations carried out by the assessee company which are agricultural in nature. The assessee company procures germplasm and sows in its own field, and carries on all agricultural operations and produces the Basic Seeds. The Basic Seeds so harvested are again put through agricultural operations intimately connected with leasehold land for finally bringing out the Hybrid Seeds. Only for the reason that the Basic Seeds are sown in leasehold land and the manpower required are arranged through contract farming, it does not mean that the operations carried out by the assessee

company are not agricultural operations. As a matter of fact, it is to be seen that the assessee company has carried out basic as well as secondary agricultural operations. Therefore, without any fear of contradiction, it is possible for us to hold that entire such income of the assessee is agricultural in nature which is to be excluded from the nature of total income."

In the light of above judgments, it can be concluded that if basic operations of agricultural activity are carried out by any firm or individual, the income generated from such activity would be termed as agricultural income. Hence, in order to consider an income as agricultural in nature, there has to be some linkage between income generated and basic agricultural operations carried out.

- **Does interest on arrears of rent qualify as agricultural income and will this be exempt from tax?**
- Sometimes, a tenant could slip up on rent or revenue payments (either in cash or kind) and have to pay arrears. If the landlord charges interest on such arrears, the income would not be considered as an agricultural income but would be deemed income by way of interest and would, hence, be chargeable to tax. While 'rent' presupposes periodical and pre-determined payment (either in cash or kind), 'revenue' implies a sharing arrangement that depends on the actual agricultural produce. In either case, ownership of agricultural land or interest in such land is essential, which means, the owners of agricultural land, tenants who are given a sub-lease, and people who are mortgagees of agricultural land, all enjoy tax-free agricultural income.
- **If agricultural produce is processed to make it marketable at a place other than the agriculture land, then the amount charged for such processing will be an agricultural income or not?**
- Any processing done on agricultural produce to make it marketable is a part of agricultural operations and such amount recovered will be treated as agricultural income only. For example, trashing of wheat, mustard, etc is part of agricultural operations only and the amount recovered will be treated as agricultural income only, no matter processing takes place on the land itself or some other place. But in certain cases like in the case of tea, coffee, sugarcane where a major processing (change of very nature of the product) is being done, some part of the processed produce (tea, coffee & sugar) is taxed as non-agricultural income and rest is exempt as agricultural income.

- **I am the farmer cultivating sugarcane on my agriculture land. Further, I process sugarcane and convert it into sugar/jaggery and sell it to the market. Will the income generated from such sale be termed as 'agricultural' or 'non-agricultural income'?**

- The income generated by sale of sugar/jaggery in the above case will consist of both 'agricultural' and 'non-agricultural income'. As per Rule 7 of ITA Rules, the market value of agriculture produce i.e. sugarcane in the above case, will get deducted from the whole income generated from the sale of jaggery/sugar and the remaining income will be taxed as income under the head 'profit and gains from business'.

- **What if agriculture operation is carried on urban land?**

  — If agricultural operations are carried out on land, either urban or rural, the income derived from sale of such agricultural produce shall be treated as agricultural income and will be exempt from tax.

- **If any industrial organization grows crops and sells half of the produce as raw material in the market and remaining (further processed) as finished goods, what will be the tax treatment?**

  — Agricultural income is exempt from income tax. It does not matter whether the agricultural operations are done by an industrial organization or an individual. If any industrial organization grows crops and sells half of the produce as raw material in market and remaining (further processed) as finished goods, the income which is earned on the first half of produce (sold in market as raw material) is totally exempt from tax. In case of the remaining produce which is further processed, scheme of presumptive taxation is applicable. Rule 7, 7A, 7B & 8 of ITA Rules deals with such type of income. Rule 7A deals with income from manufacture of rubber, 7B deals with income from manufacture of coffee and Rule 8 deals with income from manufacture of tea. Rule 7 says that in cases where income is partially from agricultural and partially from business, the market value of the agricultural produce which has been raised by the assessee or received by him as rent in kind and which has been utilised as a raw material, shall be deducted from the sale receipts and will be treated as agriculture income. The remaining will be considered as non-agricultural income.

- **In my agriculture farm, I have 5 cows in Pune (Maharashtra). The product being milk is the main produce, and not a by-product. Is**

this income an agriculture income or a taxable income? (This milk is sold to dairy product plant in nearest Co-op Society).

— Dairy farming is not an agricultural income.

- **Why rent on land is treated as agricultural income?**

  — Rent received from agricultural land used for agricultural purpose is treated as agricultural income. This is prescribed by the law.

- **Can interest on crop loan be claimed as an exemption?**

  — The interest earned on crop loan cannot be claimed as an exemption by the provider of loan since the condition of ownership of land being not essential holds true only if the assessee has interest in the land. The provider of the loan may not have an interest in the land because it may be his ordinary business to provide crop loan. However, the farmer to whom the crop loan is provided can claim the same as a deduction while computing his tax liability.

- **If an assessee sells the fruits of the trees planted by him around his home, will the income so earned be agricultural income?**

  — The trees planted by him should be on a land which can be classified as an agricultural land by fulfilling the conditions mentioned earlier in this article. If the land is agricultural, then the income earned by selling of fruits can be treated as agricultural income.

- **I have taken certain agricultural land on lease and crops are being grown on the said land for many years. Now the said land along with growing crops has been acquired by the Government. The Government paid separate compensation for the land and the crop. Whether the compensation received in lieu of crop is agriculture income or not? Further note that assessee has not further invested the amount in agriculture land received as compensation against crop.**

  — The compensation paid for the crops by the Government can be considered to be as good as income earned by purchase of standing crop, which is not an agricultural income. Hence the compensation against crop is taxable in the hands of receiver of the compensation.

- **Whether income earned from export of agricultural produce is exempt from income tax?**

  — The conditions for considering the income as agricultural in nature have to be satisfied if the agricultural produce has to be exempt from income tax. Middlemen dealing in trade of agricultural produce are generally not entitled to exemption due to lack of satisfaction of the conditions.

- **I have an income of ₹ 1,45,000 from my business and an agricultural income of ₹ 8,40,000. Do I need to file the return of income?**

  — The process of computation of tax liability is followed only if the assessee's non-agricultural income is in excess of the basic exemption slab. In this case, the income from business of the assessee is lower than the basic exemption limit. However, the returns have to be filed with regards to the disclosure of agricultural income.

- **An assessee wants to buy farms which bear coconut trees, on a lease for a period of one year. State whether sale of coconuts is said to be an agricultural income or not?**

  — The land on which the coconut trees are planted should be an agricultural land which can be classified by fulfilling the conditions mentioned earlier in this article. If the land is agricultural, then the income earned by selling of coconuts can be treated as agricultural income.

- **I had sold an agricultural land in a rural area, which is outside the jurisdiction of the Municipal Authority. Whether the sales proceeds are exempt or taxable?**

  — The scope of agricultural income excludes the revenue which is earned by transfer of agricultural land not falling under the definition of capital assets Section 2(14) of ITA. By virtue of definition of a capital asset under Section 2(14) of ITA, an agricultural land in an area falling out of jurisdiction of the Municipal Authority (which has a population of more than 10,000), is not a capital asset. Section 10(37) of ITA allows income from transfer of such a land to be classified as a capital gain via clause (i). Under Section 54B, a capital gain arising out of this transaction will be exempt provided the conditions (mentioned earlier in this article) are satisfied.

- **Is receipt from sale of rubber trees an agricultural income?**

  — Yes, receipt of sale of rubber trees is an agricultural income if the conditions for land being agricultural in nature are satisfied.

Part II – Indirect Tax

Goods and Services Tax (GST) is a destination-based tax payable in a state where consumption of goods or services takes place. It is an indirect tax payable on supply of goods or services or both. It has subsumed a number of indirect taxes including excise, VAT, sales tax, service tax and entry tax levied on different stages of supply chain. However, customs duty is still applicable on import of goods into territory of India. GST has simplified the whole indirect tax regime and removed the cascading effect ensued by earlier indirect tax regime. Further, it has removed impediments in the form of number of taxes in any business and paved the way for trade with minimal tax restrictions. According to experts, GST will benefit all the stakeholders including industry, trade, agriculture, end-consumers, Central & State Governments. Now, let's understand the ramifications of GST for agriculture sector.

Before implementation of GST:

Certain food items like rice, sugar, salt, wheat, flour were exempted from Central VAT. In the secondary market, cereals and grains were taxed at the rate of 4% under the State VAT.

State VAT was applicable to all the agricultural goods at each stage, from prior stages to final consumption. However, certain exemptions were available from State VAT for certain unprocessed agricultural products including food products like meat, eggs, fruits, vegetables etc.

Impact of GST on agricultural sector:

Before GST, for the purposes of inter-state trade a number of compliances including registration, licenses and permissions were required to be fulfilled in each state. For instance, various agricultural products used to come within the purview of State VAT. Hence, in order to sell such products in different states, a number of compliances including registration and other formalities were required to be fulfilled in those states. These compliances acted as an impediment for traders especially farmers selling their farm produce across the country. With the implementation of GST, these hindrances have been removed and GST has paved the way for liberalizing the economy. Further, the agricultural products have now single rate of tax across the country, such uniformity in taxation has allowed the farmers to sell their produce in a state where they can get the best price.

Implementation of GST has helped in minimizing the wastage of agricultural produce. It has also helped to cut down the transportation costs that farmers have to endure, the cost of heavy machinery linked to agriculture is also reduced. The GST council has levied 12% GST rate on sprinkles and nozzles.

Most of the indirect taxes levied on agricultural products, are subsumed under GST. GST provides each trader ITC for the tax paid on every value addition. This creates a transparent, hassle-free supply chain which leads to free movement of agri-commodities across India.

Implementation of the NAM scheme by the Centre in accordance with the GST has created scope for increased transparency and impartial trade of agri-commodities without the restriction of multiple taxation.

Most of the agricultural commodities are perishable in nature. An improved supply chain mechanism due to GST has reduced the time taken for inter-state transportation of goods. The benefit of reduction in time is passed on to the farmers/retailers. Some states in India like Maharashtra, Punjab, Gujarat, Haryana earn more than ₹ 1000 crores from charging CST/OCTROI/Purchase Tax. As GST subsumes all the above taxes, these states are compensated for the loss of their revenue.

Key highlights of GST on agricultural produce/operations/goods:

The term 'agriculturist' is defined under Section 2(7) of CGST Act. It reads as under:

"(7) agriculturist means an individual or a Hindu Undivided Family who undertakes cultivation of land–

(a) by own labour, or

(b) by the labour of family, or

(c) by servants on wages payable in cash or kind or by hired labour under personal supervision or the personal supervision of any member of the family;"

As per CGST Act, the agriculturist is exempted from payment of tax. However, any company or LLP running business related to agriculture or anyone involved in formal agricultural business may be required to get registration under CSGT Act as per the turnover and hence, may be liable to pay tax.

Further, the term 'agricultural produce' has been defined under **Notification No. 11/2017 & 12/2017,** dated 28-06.17. It reads as under:

"(vii) "agricultural produce" means any produce out of cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products, on which either no further processing is done or such processing is done as is usually done by a cultivator or producer which does not alter its essential characteristics but makes it marketable for primary market."

From the reading of above definition of agricultural produce, following criteria to qualify as agricultural produce must be fulfilled:

- It should be any produce out of cultivation of plants and rearing of life forms of animals but should not include rearing of horses, for food, fibre, raw material or other similar products.
- No processing should be done on such produce.
- If processing is required, it should be done by cultivator or producer and such processing should not result into alteration of essential characteristic of such produce.

Let's understand the applicability of GST on various goods/services/operations related to agriculture in the light of various notifications.

1. Notification No. 1/2017-Central Tax (Rate) dated 28-06-17

The Notification No. 1/2017 provides with different rate of taxes leviable on intra-state supply of commodities. Following tables contain the rate for various goods related to agriculture industry enshrined under different schedules of the notification.

Schedule I

Sr. No.	Chapter/Heading/ Sub-Heading/Tariff item	Description of goods	Rate in percentage
7	0401	Ultra High Temperature (UHT) milk	2.5
8	0402	Milk and cream, concentrated or containing added sugar or other sweetening matter, including skimmed milk powder, milk food for babies [other than condensed milk]	2.5
9	0403	Cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa	2.5
27	0801	Cashew nuts, whether or not shelled or peeled, desiccated coconuts	2.5
28	0802	Dried areca nuts, whether or not shelled or peeled	2.5

Sr. No.	Chapter/Heading/ Sub-Heading/Tariff item	Description of goods	Rate in percentage
29	0802,0813	Dried chestnuts (singhada), whether or not shelled or peeled	2.5
29A	0802	Walnuts, whether or not shelled	2.5
30A	0804	Mangoes sliced, dried	2.5
31	0806	Grapes, dried, and raisins	2.5
32	0811	Fruit and nuts, uncooked or cooked by steaming or boiling in water, frozen, whether or not containing added sugar or other sweetening matter	2.5
33	0812	Fruit and nuts, provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption	2.5
35	0901	Coffee roasted, whether or not decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion other than coffee beans not roasted	2.5
36	0902	Tea, whether or not flavoured other than unprocessed green leaves of tea	2.5
44	0910 [other than 0910 11 10, 0910 30 10]	Ginger other than fresh ginger, saffron, turmeric (curcuma) other than fresh turmeric, thyme, bay leaves, curry and other spices	2.5
57	1104	Cereal grains otherwise worked (for example, rolled, flaked, pearled, sliced or kibbled), except rice of heading 1006; germ of cereals, whole, rolled, flaked or ground other than hulled cereal grains	2.5
64	1201	Soya beans, whether or not broken other than of seed quality	2.5

Sr. No.	Chapter/Heading/ Sub-Heading/Tariff item	Description of goods	Rate in percentage
69	1206	Sunflower seeds, whether or not broken other than of seed quality	2.5
70	1207	Other oil seeds and oleaginous fruits (i.e. Palm nuts and kernels, cotton seeds, Castor oil seeds, Sesamum seeds, Mustard seeds, Saffower (Carthamustinctorius) seeds, Melon seeds, Poppy seeds, Ajams, Mango kernel, Niger seed, Kokam) whether or not broken, other than of seed quality	2.5
71	1208	Flour and meals of oil seeds or oleaginous fruits, other than those of mustard	2.5
73	1211	Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purpose, frozen or dried, whether or not cut, crushed or powdered	2.5
74	1212	Locust beans, seaweeds and other algae, sugar beet and sugar cane, frozen or dried, whether or not ground; fruit stones and kernels and other vegetable products (including unroasted chicory roots of the variety Cichoriumintybussativum) of a kind used primarily for human consumption, not elsewhere specified or included	2.5
91	1701	Beet sugar, cane sugar	2.5
182	3101	All goods i.e. animal or vegetable fertilisers or organic fertilisers put up in unit containers and bearing a brand name	2.5
231	8413, 8413 91	Hand pumps and parts thereof	2.5

Sr. No.	Chapter/Heading/ Sub-Heading/Tariff item	Description of goods	Rate in percentage
232	8419 19	Solar water heater and system	2.5
234	84, 85 or 94	Bio-gas plant, solar lantern /solar lamp, waste to energy plant or devices	2.5

Note: Effective rate after including CGST and SGST component becomes 5%.

Schedule-II

Sr. No.	Chapter/Heading/ Sub-Heading/Tariff item	Description of goods	Rate in percentage
11	**0402 91 10, 0402 99 20**	Condensed Milk	
12	0405	Butter and other fats (i.e. ghee, butter oil, etc.) and oils derived from milk; dairy spreads	6
13	0406	Cheese	6
14	0801	Brazil nuts, dried, whether or not shelled or peeled	6
15	0802	Other nuts, dried, whether or not shelled or peeled, such as Almonds, Hazelnuts or filberts (Coryius spp.), Chestnuts (Castanea spp.), Pistachios, Macadamia nuts, Kola nuts (Cola spp.) [other than dried areca nuts]	6
16	0804	Dates (soft or hard), figs, pineapples, avocados, guavas and mangosteens, dried	6
16A	0805	Citrus fruit, such as Oranges, Mandarins (including tangerines and satsumas); clementines, wilkings and similar citrus hybrids, Grapefruit, including pomelos, Lemons (Citrus limon, Citrus limonum) and limes (Citrus aurantifolia, Citrus latifolia), dried	6

Sr. No.	Chapter/Heading/ Sub-Heading/Tariff item	Description of goods	Rate in percentage
17	0813	Fruit, dried, other than that of headings 0801 to 0806; mixtures of nuts or dried fruits of Chapter 8 other than dried tamarind and dried chestnut (singhada) whether or not shelled or peeled	6
78A	3808	The following Bio-pesticides, namely - 1. Bacillus thuringiensis var. israelensis 2. Bacillus thuringiensis var. kurstaki 3. Bacillus thuringiensis var. galleriae 4. Bacillus sphaericus 5. Trichoderma viride 6. Trichoderma harzianum 7. Pseudomonas fluoresens 8. Beauveriabassiana 9. NPV of Helicoverpaarmigera 10. NPV of Spodopteralitura 11. Neem based pesticides 12. Cymbopogan]	6
192	8413	Power driven pumps primarily designed for handling water, namely, centrifugal pumps (horizontal and vertical), deep tube-well turbine pumps, submersible pumps, axial flow and mixed flow vertical pump	6
195AA	8424	Nozzles for drip irrigation equipment or nozzles for sprinklers	6
195B	8424	Sprinklers; drip irrigation system including laterals; mechanical sprayers	6
196	8432	Agricultural, horticultural or forestry machinery for soil preparation or cultivation	6

Sr. No.	Chapter/Heading/ Sub-Heading/Tariff item	Description of goods	Rate in percentage
197	8433	Harvesting or threshing machinery, including straw or fodder balers; grass or hay mowers; machines for cleaning, sorting or grading eggs, fruit or other agricultural produce, other than machinery of heading 8437	6
198	8434	Milking machines and dairy machinery	6
199	8436	Other agricultural, horticultural, forestry, poultry-keeping or bee-keeping machinery, including germination plant fitted with mechanical or thermal equipment; poultry incubators and brooders	6
201	8479	Composting Machines	6
210	8716 20 00	Self-loading or self-unloading trailers for agricultural purposes	6
207	8701	Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc)	6

Note: Effective rate after including CGST and SGST component becomes 18%

2. Notification No. 2/2017-Central Tax (Rate) dated 28-06-17

The Notification No. 2/2017 is an exemption notification which provides exemption from tax on intra-state supply of goods. As stated earlier, the definition of 'agriculture produce' consists of those agricultural produces on which no processing has been done. These are the same produces which have been given exemption under the Notification. Hence, the agricultural products which are fresh and without any processing and not put up in a unit containers are generally exempted from GST. Following are the few examples of exempted produces-

- Fresh milk and pasteurised milk, including separated milk, milk and cream, not concentrated nor containing added sugar or other sweetening matter.
- Natural honey other than those put up in unit container.

- Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage.
- Vegetables (uncooked or cooked by steaming or boiling in water), frozen.
- Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared.
- Dried makhana, whether or not shelled or peeled [other than those put up in unit container.
- Coconuts, fresh or dried, whether or not shelled or peeled.
- Brazil nuts, fresh, whether or not shelled or peeled.
- Bananas, including plantains, fresh or dried.
- Apricots, cherries, peaches (including nectarines), plums and sloes, fresh.
- Melons (including watermelons) and papaws (papayas), fresh.
- Apples, pears and quinces, fresh.

3. Notification No. 12/2017- Central Tax (Rate) dated 28.06.17

The Notification No. 12/2017 exempts various services from GST. The Notification has included various services required by farmers for agricultural operations. Following are the services related to agriculture which are exempted from tax-

- Services supplied by electricity distribution utilities by way of construction, erection, commissioning, or installation of infrastructure for extending electricity distribution network upto the tube well of the farmer or agriculturalist for agricultural use.
- Services by way of transportation by rail or a vessel from one place in India to another of agricultural produce.
- Services provided by a goods transport agency, by way of transport in a goods carriage of agricultural produce.
- Services of general insurance business provided under following schemes-
    - — Agricultural Pump-set and Failed Well Insurance.
    - — Restructured Weather Based Crop Insurance Scheme (RWCIS) approved by the Government of India and implemented by the Ministry of Agriculture.

- Services by way of fumigation in a warehouse of agricultural produce.
- Services relating to cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products or agricultural produce by way of-
  - — agricultural operations directly related to production of any agricultural produce including cultivation, harvesting, threshing, plant protection or testing;
  - — supply of farm labour;
  - — processes carried out at an agricultural farm including tending, pruning, cutting, harvesting, drying, cleaning, trimming, sun drying, fumigating, curing, sorting, grading, cooling or bulk packaging and such like operations which do not alter the essential characteristics of agricultural produce but make it only marketable for the primary market;
  - — renting or leasing of agro machinery or vacant land with or without a structure incidental to its use;
  - — loading, unloading, packing, storage or warehousing of agricultural produce;
  - — agricultural extension services;
  - — services by any APMC or Board or services provided by a commission agent for sale or purchase of agricultural produce; and
  - — services by way of fumigation in a warehouse of agricultural produce.
- Carrying out an intermediate production process as job work in relation to cultivation of plants and rearing of all life forms of animals.
- Services provided by the National Centre for Cold Chain Development under the Ministry of Agriculture, Cooperation and Farmer’s Welfare.
- Services provided by an unincorporated body or a non-profit entity registered under any law for the time being in force, engaged in,-
  - — activities relating to the welfare of agricultural labour or farmers; or
  - — promotion of agriculture.

In the light of above discussion, it can be stated that fresh agriculture produces which have not gone through any processing are exempted from GST. Further, any services essential for the agricultural operations are also exempted from GST. Also, CGST act has given exemption to agriculturists. In this manner, the legislature has taken care of agricultural sector by not including farmers and agriculture produce within the purview of GST.

We will now discuss some of the areas where there a big dispute between the revenue authorities and the assessess.

Difference between fertilizers and plant growth regulators:

Chapter Heading	Description	Rate in GST
3808	Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant growth regulators, disinfectants and similar products	**18%**
3101	All goods i.e. animal or vegetable fertilizers or organic **fertilizers** put up in unit containers and bearing a brand name	**5%**

As can be seen from the above table, fertilizers and plant growth regulators (PGR) are taxed at different rates i.e. 18% and 5% respectively. Therefore, it becomes important to understand the difference between both. Fertilizers provide nutrition to all the parts of the plants and promote their holistic growth. While PGR are natural or synthetic chemical compounds which target the specific part of plant. PGR are applied to alter the life processes of a plant so as to accelerate or retard growth, enhance yield, improve quality or facilitate harvesting, etc. In layman terms, it can be said that fertilizers are like food we eat, whereas plant-growth regulators are like medicines.

Therefore, one should remember the above distinction between PGR and fertilizers while classifying goods for the purposes of taxation.

Similarly, there are numerous areas pertaining to the transaction in goods and services which are subject matter of litigation. In fact, as to what constitute the agricultural produce itself is a subject matter of dispute. For example, the grain sold by the farmer to the trader is an agricultural produce, however the same grain purchased by the seed producing company and transported to various places to making sale is an agricultural produce or not is the subject matter of dispute in various cases.

Exemption from custom duty on goods related to agriculture:

The Notification No. 50 /2017 –Customs dated 30.06.17 exempts goods imported into India from so much of the duty of customs leviable thereon under the said First Schedule of Customs Tariff Act, 1975 as is in excess of the amount calculated at the standard rate specified in the corresponding entry in column (4) of the table below and from so much of integrated tax leviable thereon under sub-section (7) of section 3 of said Customs Tariff Act, read with section 5 of the Integrated Goods and Services Tax Act, 2017 as is in excess of the amount calculated at the rate specified in the corresponding entry in column (5) of the table below. Further, the exemption granted to importation of goods is subject to fulfilment of conditions, if any, given in the notification. Following is the table dealing with exemption granted to goods related to agriculture-

S. No.	Chapter or Heading or sub–heading or tariff item	Description of goods	Standard rate in %	Integrated Goods and Services Tax in %
(1)	(2)	(3)	(4)	(5)
17	06, 07, 08, 09 or 12	Planting materials, namely, oil seeds, seeds of vegetables, flowers and ornamental plants, tubers and bulbs of flowers, cuttings or saplings of flower plants, seeds or plants of fruits and seeds of pulses.	5	—
20	0713	[Pulses [other than Peas (Pisum sativum), Tur, Chickpeas or Masoor (Lentils)]]	Nil	—
20A	0713 10	Peas	—	—
21	0713 40 00, 0713 60 00	Tur	10	—
21A	0713 20 10	Kabuli Chana	40	—
21B	0713 20 20	Bengal Gram	60	—
21C	0713 20 90	Chickpeas	60	—
21D	0713 40 00	Lentils	30	—
21E	0713 40 00	Lentils (Mosur)	10	—
21F	0713 40 00	Lentils (Mosur) originating in or exported from United States of America	30	—
22	0801 31 00	Cashew nuts in shell	2.5	—
223	31	Composite Fertilisers	5	—

S. No.	Chapter or Heading or sub–heading or tariff item	Description of goods	Standard rate in %	Integrated Goods and Services Tax in %
249	38	Bio-pesticides, based on – (i) Bacillus thuringiensis var. kurstaki (ii) Bacillus thuringiensis var. israelensis (iii) Bacillus sphaericus (iv) Saccharopolyspora spinosa	5	
448	84 or any other Chapter	A) The following goods, namely:- (i) Paddy transplanter; (ii) Laser land leveler (iii) Reaper-cum-binder; (iv) Sugarcane harvester; (v) Straw or fodder balers; (vi) Cotton picker; (vii) Track used for manufacture of track type combine harvesters; (viii) Sugarcane planter; (ix) Root or tuber crop harvesting machines; (B) Parts and components required for manufacture of goods specified at (A)	2.5	—
587	9405 50 40	Solar lanterns or solar lamps	5	—

Note: '-' denotes IGST rates as applicable under the GST Rate Notification.

Having said above, we will also deal with certain other connected issues faced by the Industry dealing in the agriculture sector.

Reversal of common credit used for taxable and exempted supplies:

Section 17(2) of the CGST Act states that where the goods or services or both are used by the registered person partly for effecting taxable supplies and partly for effecting exempt supplies, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies. In other words, if ITC has been used to make supply of exempted goods or services or both then such ITC must be reversed.

Therefore, if any assessee makes any supply of taxable goods or services, whether related to agriculture or not, along with exempted goods or services, whether related to agriculture or not, he is required to reverse the credit attributed to the exempted supply. Further, Rule 42 and Rule 43 of the Central Goods and Services Act, 2017 deals with the manner of reversal of common credit and by employing the formula given in these rules, common credit related to exempted supply can be reversed.

Conclusion:

With the introduction of 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. GST ensures that farmers are able to sell their produce for the best available price with a single unified national agriculture market.

In the light of above discussion, it can be stated that GST has impacted the agricultural sector in both positive and negative ways. Branded milk, fertilizers and tea attract increased rate of taxes in comparison of previous indirect tax regime as a result of which price of such commodities has increased. However, most of the agricultural commodities are exempted under CGST Act. Further, GST has simplified the taxation by removing the number of taxes and providing farmers with uniform agricultural market across the country. It has resulted into better tax collection and tax compliances as compared to previous regime. It has also reduced the cascading effect of tax and resulted into reduced prices for consumers. In the long run, it will be proved to be beneficial for the famers fetching them goods prices, which in turn, will result into growth of Indian economy.

Way Forward

As reiterated again and again, agriculture is the backbone of the Indian economy. It satiates the hunger of more than one hundred and thirty billion of Indian population. It generates income, employment and hence, contributes to the Indian economy. Even after occupying such a huge importance, the agriculture sector and its players have been overlooked. It has to be kept in mind that if the agriculture sector of India fails to function effectively, the Government has to rely on import of agricultural commodities to feed its population. It will not only cause a burden on the Government exchequer but also impact the Indian economy. Therefore, for the development and growth of Indian economy as well its population, a proper regulation of agriculture sector is required.

The agricultural sector needs a sensitive approach after considering the needs of all the players involved in it. It requires public-private collaboration to fulfil its needs including modernisation, investment, transparency etc. The Government should incentivise the involvement of private players in agricultural sector. With the evolution of modern techniques, agriculture may prove to be a beneficial venture. Therefore, the Government with the help of private investors should invest in R&D facilities to develop more effective and less costly ways of farming.

Investment in agricultural infrastructure including storage facilities and technological innovation would certainly help in overhauling the agriculture sector for the welfare of the country. Investment in agriculture sector would not only uplift it, but also create various employment and business opportunities.

The Government has tried to move forward in the direction of reviving the agricultural sector by passing the farm laws; however, there has been tussle between the Government and other stake holders on these laws. A number of farmers from all over the country have been protesting against these laws. We are hopeful that after deliberations and consultations, all the issues concerning the farm laws will be resolved.

Any law or policy devised by the Government should consider the interest of all the stakeholders of the sector including traders, farmers and their union and associations. The stakeholders of the agricultural sector are in better position to understand the various needs of the sector. Therefore, the Government should work in collaboration with the stakeholders to deal with any issue related to agriculture. In this manner, a best possible solution can be devised to overcome with any issue plaguing agriculture.

In addition to above, the Government should employ its resources for collection of reliable and useful data on which factors such as demand-supply, MSP and Government policies are dependent. The Government should strengthen the existing machinery and involve new agencies in order to collect useful data. Also, as discussed earlier the Government should move towards cashless economy as far as possible so that a lot of market players can be brought within the purview of formal economy and farmers can directly be benefited through DBT. In this manner, not only the revenue of the government but also the income of farmers will get increased.

Further, the Government should focus on bringing transparency norms to make its officials and other players of agricultural sector such as traders and middlemen responsible for their acts. It can put a check on their actions and curb the malpractices.

And lastly, the Government should extensively work towards channelizing the rivers through river-link projects so that the problems related to water scarcity can be resolved.

As stated earlier, agriculture sector has the most significant role to play not only in terms of feeding people but also in providing employment. If the Government deliberates on suggestions as made above, the agricultural sector will surely be able to achieve its maximum potential. In this way, agriculture sector will help not only in flourishing the Indian economy but also in making enough food available for more than one hundred thirty billion people.

Western India Regional Council of
The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

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