

1. Introduction

The Goods and Services Tax (GST), implemented on 1 July 2017, represents one of the most significant fiscal reforms in independent India's economic history. By replacing a multiplicity of indirect taxes at the central and state levels, GST sought to establish a unified national market, simplify compliance, improve tax transparency, and enhance competitiveness across sectors. After eight years of implementation, the Government of India launched the Next-Generation GST Reforms (GST 2.0) in September 2025, marking a paradigm shift toward rate rationalisation, digital compliance, and inclusive fiscal governance.

The introduction of the Next-Generation GST Reforms or GST 2.0 in September 2025 marks a major milestone in India's fiscal modernisation through the introduction of rationalised rates, reduced taxes on fertilisers, dairy products, farm machinery, renewable-energy devices, and rural consumer goods. Moreover, GST 2.0 is characterised by the launch of an AI-driven GST compliance platform and the implementation of an automated refund mechanism to address the inverted duty problem.

Agriculture, rural industries, and value chains are highly sensitive to taxation, transportation, and market access mechanisms. The Next-Generation GST reforms are expected to alter cost structures for farmers, affect Agri input such as fertilisers, seeds, machinery, reshape procurement and warehousing systems, and influence commodity pricing mechanisms through changes in compliance and credit flow. The Indian economic ecosystem being integrated in nature, the ripple effects of GST 2.0 in agriculture are expected to influence sectoral competitiveness and growth potential in related domains such as agro-processing, logistics, e-commerce, financial services, etc.

Existing studies (Raju et al., 2016; Singh et al., 2018; Rao et al., 2019; Viswanathan & Krishnakumar, 2020; Dwivedi, 2024) reveal that the introduction of GST has improved market integration and transparency but also introduced input–output asymmetries and compliance challenges that particularly affect smallholders and rural MSMEs. The new GST reforms attempt to address these asymmetries through rate rationalisation, correction of inverted duty structures, and simplified compliance developments with direct implications for agricultural mechanisation, fertiliser affordability, value-addition, and household welfare.

While these policy measures are expected to generate long-term efficiency and fiscal stability, their socio-economic implications remain underexplored, particularly in agriculture and rural value chains, where livelihoods, market structures, and cost dynamics are deeply interlinked with taxation. Hence, as India contemplates a “next-generation” phase of GST reforms aimed at rationalising rates, broadening the tax base, and integrating technology, there is an urgent need to conceptually assess how these reforms might influence the broader agricultural ecosystem, particularly the linkages between producers, intermediaries, processors, and rural livelihoods.

The paper aims to conceptually examine the implications of next-generation GST reforms for the agricultural economy. Specifically, it seeks to examine the socio-economic impact of Next-Generation GST reforms on agriculture, farm households, and rural labour. Also the paper evaluates value-chain level implications of Next-Generation GST in agri-inputs, procurement, storage, processing, and retail. The paper also intends to assess how revised GST structures influence price transmission, margins, competitiveness, and rural purchasing power. Through theoretical analysis, the paper seeks to lay down a conceptual framework connecting GST reform variables with agricultural and rural livelihood outcomes, which would be a research gap for empirical exploration in future studies.

2. Theoretical and Methodological Framework

The study is anchored in an integrated theoretical framework combining Fiscal Reform Theory, the Sustainable Livelihoods Framework, and Value-Chain Analysis to explain the multi-dimensional pathways through which GST 2.0 affects Agri economies and rural livelihoods.

2.1 Fiscal Reform and Efficiency Framework

Classical and modern fiscal theories (Rao & Bagchi, 2019; Rao, 2022) view tax reform as a mechanism to enhance allocative efficiency, equity, and revenue neutrality. GST 2.0 embodies these principles by rationalising rates, simplifying compliance, and reducing distortions across input and output markets. The reduction of tax rates on agricultural machinery, fertilisers, and renewable-energy equipment is expected to lower production costs, enhance liquidity through improved input tax credit (ITC), and stimulate rural investment.

2.2 Sustainable Livelihoods Framework

Drawing on Chambers and Conway's (1992) concept, livelihoods depend on the interaction between human, natural, financial, social, and physical capital. Fiscal reforms influence these capitals by altering prices, profitability, and access to services. The Next-Generation GST lowers household expenditure through reduced tax on essentials and expands rural purchasing power, thereby strengthening financial and social capital. Reduced costs of mechanisation, bio-pesticides, and renewable-energy devices promote climate-resilient and sustainable farming systems, improving the long-term viability of rural livelihoods.

2.3 Value-Chain Analysis

Following Porter's and Kaplinsky & Morris's frameworks, GST reforms reshape each node of the agricultural value chain: input procurement, production, processing, logistics, and retail. Lower GST on machinery, fertiliser inputs, packaging, and cold-chain equipment reduces costs and improves margins for farmers, FPOs, and processors. Simultaneously, simplification of e-way bills, refunds, and registration encourages formalisation and digital participation among small producers, Agri-startups, and MSMEs, leading to enhanced value-chain integration and inclusive rural industrialisation.

2.4 Institutional and Digital Governance Perspective

Lele & Goswami (2017) and Dwivedi (2024) emphasise that sustainable fiscal reforms must align with technological and institutional innovations. The integration of AI-enabled GST Sahay, e-invoicing, and automated refund systems under GST 2.0 represents a shift toward data-driven fiscal governance, enabling transparency and accountability in rural economic transactions. This theoretical perspective links fiscal modernisation with digital empowerment, crucial for FPOs and small processors in rural Agri-economies.

Collectively, these frameworks conceptualise GST 2.0 as a multi-scalar reform influencing production efficiency, market connectivity, and household welfare through both direct fiscal incentives and institutional reforms.

3. Literature Review

3.1 Macro-Fiscal and Policy Context

The macroeconomic implications of GST 2.0 are widely recognised in government and institutional reports. The Reserve Bank of India (2025) and The Economic Times (2025) noted

that rate rationalisation under GST 2.0 contributed to moderating inflation (to around 4.8%) and supporting rural consumption-led growth, while the Press Information Bureau (2025) emphasised its role in easing compliance for small businesses and farmers. The Times of India (2025) and PTI (2025) reports further corroborate that tax reductions on fertilisers, dairy goods, and farm machinery directly lowered rural input costs, thus improving household affordability and producer profitability.

The RBI's (2025) State of the Economy Bulletin attributes robust growth in private consumption and rural demand to GST-induced efficiency and cost savings. Collectively, these macro-policy documents establish that GST reforms have evolved from a unifying tax reform (2017) to a developmental instrument fostering equity, growth, and digital transparency. They also provide the policy foundation for examining the localised impacts on agrarian Economies.

3.2 Fiscal Reform Theory and Structural Analyses

Academic studies by Rao, Mukherjee, and Bagchi (2019) and Rao (2022) provide a theoretical foundation for GST's design and its evolving institutional dynamics. They view GST as a dual federal tax balancing efficiency with equity, while emphasising the need for simplification, rate rationalisation, and digital integration to enhance fiscal efficiency. Dwivedi (2024) complements this by calling for a transition to a mature "GST 2.0" regime built on transparency, cooperative federalism, and data-driven policymaking. Similarly, Bhattarai (2017), using a computable general equilibrium (CGE) model, demonstrates that GST enhances economic efficiency, sectoral specialisation, and income redistribution, underscoring its long-term potential for inclusive growth.

The structural and legal dimensions of GST implementation are critically assessed by Mehta and Mukherjee (2021), who identified procedural bottlenecks in compliance and ITC validation, anticipating many of the digital simplifications later implemented under GST 2.0. Sinha (2025) highlights the persistent inverted duty problem affecting agriculture and manufacturing, emphasising the necessity of rate correction and prompt refunds to restore fiscal neutrality. Together, these studies chart the trajectory from GST 1.0's structural challenges to GST 2.0's corrective institutional agenda.

3.3 Sectoral and Agricultural Perspectives

A strong line of research focuses on the agricultural and rural impacts of GST. Early works by Tharani and Ahmed (2017), Khan et al. (2018), Mamanshetty (2018), and Abdul Aziz et al. (2018) document how GST simplified logistics and market integration but also increased input costs due to taxation on fertilisers, machinery, and pesticides, raising cost burdens for smallholders. Roshini et al. (2017) and Singh et al. (2018) identify inverted duty structures and exclusion of farmers from input tax credits as persistent distortions that affect competitiveness. These findings highlight the asymmetric benefits of GST within the agricultural economy and the need for rate rationalisation.

Further, Kalamkar and Ahir (2019) empirically demonstrate that GST-induced price changes in farm inputs in Gujarat discouraged the adoption of modern agricultural technologies, linking fiscal design to technological diffusion. Kumar and Kumar (2021) and Kumar, Malhotra, and Chakma (2022) reinforce this, showing that taxation of agricultural inputs without corresponding ITC access increased cost asymmetries and constrained profitability, particularly for smallholders and cooperatives. Jadhav and Lad (2024) and Gautam et al. (2023) expand this perspective, demonstrating that while GST unified agricultural markets, persistent input taxation and digital compliance barriers limited its inclusiveness. Viswanathan and Krishnakumar (2020) underscore the deepening crisis in Kerala's plantation sector due to rising costs, volatile global prices, and weak institutional coordination. They argue that fiscal and institutional reforms must work together to restore competitiveness and sustainability. Vineethan (2024) extends this lens to the tourism-linked plantation economy, showing how GST influences rural livelihoods through interconnected service and agricultural value chains.

3.4 Value Chain Sustainability and Livelihood Implications

Theoretical frameworks by Newton, Agrawal, and Wollenberg (2013) and Lele and Goswami (2017) provide crucial conceptual grounding by linking fiscal and regulatory instruments to sustainable commodity supply chains. They argue that fiscal instruments like GST must align producer incentives with equity and environmental sustainability to strengthen rural livelihoods. This aligns closely with the Sustainable Livelihoods Framework (Chambers

& Conway, 1992), which views fiscal reforms as determinants of livelihood assets financial, social, and physical capital.

Recent reviews such as Sarkar et al. (2025) and Sureka and Bordoloi (2024) integrate these ideas, identifying GST as a structural enabler of market formalisation but warning that uneven digital access, administrative delays, and ITC inefficiencies hinder inclusive outcomes. Their policy prescriptions, rate rationalisation, administrative streamlining, and MSME digital empowerment are directly aligned with the design goals of GST 2.0.

3.5 Empirical and Distributional Insights

At the micro and distributional level, Mukherjee (2025) finds that GST has a mildly progressive impact on household consumption, with higher expenditure groups bearing a larger tax burden. This progressive effect suggests scope for pro-rural fiscal targeting under GST 2.0. Nilakantan et al. (2024) quantify the structural benefits of GST in logistics, showing an 8% reduction in logistics costs and double-digit growth in inter-state trade volumes, translating into measurable welfare gains for rural households. Ignatius (2025) and Shrivastava (2025) empirically confirm that GST 2.0 has improved consumer affordability and demand elasticity, while Shambharkar and Tekade (2025) document its broader economic efficiency gains and compliance challenges for smaller firms.

Across the reviewed works, a consistent consensus regarding GST reforms emerges, especially the 2025 GST 2.0 package represent more than a fiscal adjustment; they are instruments of structural transformation linking macroeconomic stability, sectoral competitiveness, and livelihood sustainability. While GST 1.0 unified markets and streamlined taxation, it also exposed input asymmetries and digital divides. The next-generation reforms address these through rationalisation, automation, and inclusivity. However, the literature reveals that the impacts of such reforms are uneven across regions and sectors, with agrarian and rural economies remaining under-examined.

Thus, the reviewed literature and policy evidence converge to highlight a critical research gap: the need to examine how GST 2.0 affect agriculture, agri- value chains, and rural livelihoods. The paper responds to this gap by integrating fiscal reform theory with value-chain and livelihood frameworks to produce new insights.

4. Analysis

4.1 Implications on Agriculture, farm production costs and input markets

4.1.1 Reduction in GST on agricultural machinery and reduction in agri-input cost

The GST rates on agricultural machinery such as tractors, harvesters, threshers, balers, drip-irrigation nozzles, hydraulic pumps and several other agricultural, harvesting, and irrigation-related implements and machinery have been reduced from 12% to 5% through the implementation of next-generation GST reforms. Also, GST of specified parts of tractors, such as tyres, tubes, diesel engines, hydraulic pumps, brake and clutch assemblies, silencers, and cooling system parts, have been reduced from 18% to 5%, making repair and maintenance of this agricultural machinery cheaper. This sharp reduction in GST would result in the reduction of upfront and replacement costs of mechanisation in agriculture. The lower purchase price and replacement cost will also reduce the cost of custom-hiring centres, which will facilitate a reduction in the hiring cost of such services for small and marginal farmers. Moreover, Agri equipment traders and hiring centres could derive more profit out of the increased sales owing to the reduced capital cost. Lower capital costs and reduced operational costs of farming would facilitate the widespread and large-scale adoption of mechanisation in agriculture, which would ultimately result in large-scale scientific farming, leading to increased productivity gains and subsequent increased profitability. Further, the reduced cost of mechanisation and green technology, owing to the reduced GST rates, could also promote the use of sustainable irrigation technology critical for climate adaptation. All these could bring in self-sustainability in rural agriculture practices by overcoming labour shortage and similar other constraints in present-day farming.

4.1.2 Fertiliser and agro-input cost correction

Under the Next-Generation GST Reforms, the GST Council reduced GST on fertiliser raw materials such as sulphuric acid, nitric acid and ammonia from 18% down to 5%, resulting in a correction of the Inverted Duty Structure in fertilisers that caused a surge in fertiliser manufacturing costs and blocked input tax credit (ITC). This reduction in GST should lower fertiliser prices, resulting in a reduction of farm production costs, making fertiliser usage more affordable for small and marginal farmers, which can subsequently result in higher productivity and profitability in the farm sector. Again, the reduction of GST on fertiliser raw materials also

facilitated the minimisation of blocked input tax credits, which can lower retail fertiliser prices and could reduce fiscal subsidy pressure, making fertiliser subsidy more efficient by reducing tax-induced distortions. The decision of the GST Council to provide 90% provisional refunds for inverted duty structure claims, and risk-based provisional refunds for zero-rated supplies, will ease working capital constraints for exporters and processors, resulting in export & working capital support for small processors and Agri-exporters who previously faced long refund cycles.

4.1.3 Reduction of GST on Bio-Pesticides

The GST on many sustainable inputs, bio-pesticides and micronutrients covered under the Fertiliser Control Order, 1985, has been reduced from 12% to 5%. This will create price incentives for eco-friendly and affordable crop health management by farmers and would aid the transition toward sustainable organic farming practices, which can have long term positive impact on soil and human health.

4.1.4 Reduction of GST on certain food items

The GST on certain essential food items such as UHT milk, paneer, and Indian Breads were reduced to zero, and GST on many processed food items such as condensed milk, butter, ghee, cheese has been reduced from 12% or 18% to 5%. This would boost demand, resulting in more income and profit for farmers, which could create more investment in agriculture, farm and allied sectors.

4.2. Implications on Agri-Value Chains

4.2.1 Reduction in GST on processing inputs and food products

The GST on food processing intermediaries like starches, pectin, vegetable extracts, preservatives, dried fruits, nuts, citrus and additives have been reduced to 5%. Also, GST on value-added input ingredients such as cocoa, sugars, starches, vegetable extracts, and enzymes have all been shifted to 5%. GST on most processed food items like condensed milk, butter, ghee, cheese, namkeens, Bhujia, sauces, pasta, instant noodles, chocolates, jam, juices, and meat extracts were reduced to 5% instead of 12 or 18%. All these positive changes would make value-added agricultural products more affordable, potentially stimulating demand and making small and medium food processors, rural MSME, FPO more competitive by improving margins. It would also encourage more investments in rural processing infrastructure. This can

also facilitate village-level processing, reducing wastage, strengthening the decentralised packhouses, and village-level processing and FPO-led aggregation businesses. Also, GST reduction from 5% to NIL on essentials like Ultra-High Temperature (UHT) milk, pre-packaged and labelled chena or paneer, Indian breads, including chapati or roti, paratha, and parotta, will improve margins in dairy and small/medium food processors and encourage FPOs and MSMEs to invest in processing. Again, the reduction of GST to 5% on machinery used for cleaning, pulping, drying, milling, composting, and packaging will promote automation and the adoption of technology-driven processing machinery in rural areas.

4.2.2 Reduction in GST on Packaging, Storage, Wood Products, Paper Products

A reduction to 5% GST on a large set of packaging-related goods will reduce spoilage and post-harvest handling costs for perishables, especially fruits, vegetables, spices, and grains. Packhouses, FPOs, rural packhouses and cold-chain operators would benefit from the reduced operational and input costs and improved margins. Also, it will promote global sustainable practices by encouraging the adoption of eco-friendly, recyclable and value-added packaging, helping exporters to comply with global standards. Reduced GST on cold-chain and storage-related inputs, like refrigerators, solar-powered cooling devices, pumps, solar water heating systems, now taxed at 5% instead of 12–18%, could make cold storage cheaper to install and run and reduce spoilage of perishables such as fish, dairy, fruits, etc. Also, it will facilitate the expansion of rural cold-chain networks, which would support exports and long-distance shipments.

4.2.3 Reduced GST on Transport equipment and logistics relief

The reduction of GST on multimodal transport of goods within India from 12% to 5% for non-air legs, with restricted ITC and the uniform rate of 18% on all auto parts, would result in lower logistics costs for moving farm produce and finished goods, further supporting the agri-value chain. Lower logistics costs and fewer tax distortions reduce margins between farmers and consumers. The reduction of rates on several transport-related services and vehicle parts to 18% or 5% will reduce transaction costs in intra-state/inter-state movement. Also, it would reduce the price spread between the farmgate and the wholesale markets reducing wastage for perishables. Further, it would stimulate rural transport enterprises and agri-logistics startups. All these amendments would significantly streamline the Agri-value chain, from

processing to final consumer sale, leading to greater affordability, strengthening India's food export competitiveness and boosting consumption

4.3. Implications for Rural Livelihoods

4.3.1 Reduction of GST on Handicrafts & Rural MSME Products

The reduced GST on handicrafts, wooden, metal, clay items, bamboo, cane products, handloom products, carpets, apparel, and footwear from 18% and 12% to 5% would stimulate output and enhances access to urban markets in cottage industries, artisan clusters and rural MSMEs sectors that absorb surplus rural labour and will promote diversification of rural households beyond traditional farming. Further, it would be a boost for the rural tourism shopping segment. Also, the reduction of GST on items like Bidi wrapper leaves from 18% to 5% would aid local economies and livelihoods dependent on the collection and primary processing of specific agricultural and forest products.

4.3.2 Reduction in GST of Agricultural Tools and Household Essentials

Reduction in GST of on common rural household essentials such as toothpaste, soap, shampoos, milk, paneer, bread, butter, and packaged foods from 12% and 18% to 5% or 0% would directly lower the cost of living, resulting in increased purchasing power of rural households and would indirectly improve nutrition and welfare. The reduction of GST on everyday consumer items and food staples will enhance disposable income available for savings and investment too. The GST reduction on farm inputs like machinery, fertiliser raw materials, and bio-pesticides would also reduce the overall cost of farming, leading to higher net income for farmers. Moreover, the introduction of exemptions on life and health insurance premiums would ensure financial protection and better household welfare for rural families.

4.3.3 Reduction in GST on Renewable Energy Devices

The reduction of GST from 12% to 5% on renewable energy devices and their manufacturing parts would promote the adoption of solar pumps and other sustainable agricultural technologies by farms and rural enterprises, thereby reducing their reliance on diesel generators and further lowering long-term input and operating costs. The new GST reforms would thus reduce the energy costs of cold storage, irrigation, and food processing units. It would promote rural green jobs and reduce carbon footprint by supporting climate-resilient farming and climate-resilient logistics.

4.3.4 Simplified GST Compliance and Inclusive Rural Transformation

Beyond rate reductions, the Next-Generation GST Reforms (GST 2.0) represent a broader institutional shift toward inclusive rural transformation by aligning tax reform with digital and value-chain development initiatives such as the Digital Agriculture Stack, e-NAM, PM-FME, and the FPO Promotion Scheme. This policy convergence creates an enabling ecosystem in which taxation reform, digital integration, and rural entrepreneurship reinforce each other, positioning GST as a structural development instrument rather than merely a fiscal mechanism.

The move toward a simplified two-rate structure (18% and 5%) reduces classification ambiguity, litigation, and working capital blockages that previously affected FPOs, small processors, and rural enterprises. Rationalisation strengthens predictability in tax administration, lowers compliance costs, and facilitates smoother input tax credit (ITC) flows across agricultural value chains, thereby reducing cascading effects and enhancing liquidity.

Further, simplified registration procedures, faster approvals, reduced documentation, and streamlined refund mechanisms as envisaged in the new GST reforms, would reduce compliance anxiety and encourage voluntary formalisation among FPOs, small processors and other rural enterprises. Farmers selling through organised platforms would benefit from enhanced transparency and price discovery. Faster refund processes and improved ITC validation would reduce working capital stress, thereby improving liquidity cycles across agri-value chains, resulting in stronger institutional linkages in agricultural marketing and enhanced integration with organised supply chains. Operationalisation of the GST Appellate Tribunal and clearer dispute resolution frameworks, GST 2.0 enhance business confidence and ease of doing business for rural entrepreneurs to operate within the formal economy by limiting prolonged litigation and administrative uncertainty.

A critical innovation under GST 2.0 is the simplified registration scheme for small and low-risk suppliers, particularly those making inter-state supplies through e-commerce operators. Automated registration approvals within a short timeframe would reduce entry barriers for rural artisans, agri-producers, cottage industries, and MSMEs seeking participation in national digital markets. Collectively, these reforms would reduce transaction costs, improve institutional trust, promote digital participation, accelerate rural formalisation, strengthen FPO-

led enterprises, enhance access to credit and organised markets, and facilitate the transition from informal subsistence operations to growth-oriented rural business ecosystems.

5. Discussion

Agriculture contributes around 15% to India's Gross Domestic Product (GDP) and sustains nearly half of its workforce (Economic Survey, 2024). The agricultural economy also influences demand, logistics, and growth patterns across multiple sectors, including manufacturing, services, e-commerce, insurance, real estate, healthcare, and rural industries. Agriculture, rural industries, and value chains are highly sensitive to taxation, transportation, and market access mechanisms.

The previous GST framework created a structural imbalance whereby most agricultural produce was exempt from taxation, while essential inputs like fertilisers, pesticides, machinery, and packaging were subject to GST rates ranging between 5% and 18%. This partial exemption structure led to several distortions, including cascading costs, the blocking of Input Tax Credits (ITC), and resulting in uneven competitiveness across agri-value chains (NITI Aayog, 2023). Taxation on Agri-inputs, such as fertilisers, machinery, pesticides, packaging, cold-chain equipment, and logistics, indirectly increased production costs due to the cascading effects arising from GST exemptions on outputs.

The Next-Generation GST Reforms directly target this imbalance through strategic rate reductions on a broad range of goods and services central to rural production systems, agricultural value chains, and household welfare, as well as related measures, focusing on promoting sustainability and rural economic efficiency.

By lowering GST on agricultural machinery from 12% to 5% and on tractor components from 18% to 5%, the reforms directly reduce the cost of mechanisation, repair and maintenance, making scientific farming and mechanised operations more accessible, especially for small and marginal farmers. Similarly, the correction of the inverted duty structure for fertilisers—reducing GST on key raw materials such as sulphuric acid, nitric acid and ammonia from 18% to 5% helps lower production costs, reduce retail fertiliser prices, minimise blocked input tax credits, and relieve fiscal subsidy pressures. These measures are expected to boost agricultural productivity and profitability while strengthening the financial viability of fertiliser manufacturers and agri-exporters who benefit from faster refunds and improved liquidity.

Parallel reforms in sustainable agriculture include reducing GST on bio-pesticides and micronutrients from 12% to 5%, incentivising farmers to adopt eco-friendly crop protection and organic practices that enhance soil and human health. The food processing sector benefits significantly from the reduction of GST to 5% on processing inputs such as starches, pectin, enzymes, vegetable extracts, dried fruits and preservatives, and from lowering GST on numerous processed foods from 12% or 18% to 5%. These changes reduce value-addition costs, strengthen decentralised rural processing, improve competitiveness for MSMEs and FPO-led units, and support village-level aggregation, thereby reducing wastage and increasing rural employment. The zero rating of essential food items such as UHT milk, paneer and Indian breads further boosts demand, improving price realisation for farmers and encouraging greater investment across allied sectors.

Post-harvest and logistics systems also experience transformative gains. The reduction of GST to 5% on packaging materials—wooden crates, paper products, cartons—and on cold-chain equipment such as refrigerators and solar-powered cooling systems lowers storage and handling costs, reduces spoilage, and supports expansion of cold-chain infrastructure into rural regions. Reduced GST on multimodal transport services from 12% to 5%, along with harmonised transport-related rates, decreases logistics costs, narrows price spreads between farmgate and wholesale markets, and stimulates growth of rural transport enterprises and agri-logistics start-ups.

Important improvements also occur in the rural non-farm economy. GST reductions on handicrafts, handloom products, bamboo and cane goods, footwear, apparel, carpets and other labour-intensive items from 12–18% to 5% boost the competitiveness of rural MSMEs, artisan clusters and cottage industries that absorb surplus labour and contribute significantly to rural livelihoods. Lower GST on household essentials such as soap, toothpaste, packaged foods, milk products and bread improves rural purchasing power, nutrition and welfare, while exemption of GST on life and health insurance premiums strengthens household resilience and financial security.

GST reforms further support sustainability and climate adaptation through reduced GST (5%) on renewable energy devices, including solar pumps and cooling units, lowering energy costs for irrigation, processing and cold storage while advancing climate-resilient

agriculture. Beyond rate reductions, structural reforms—such as a simplified two-rate GST structure (18% and 5%), faster registrations, streamlined refunds, simplified valuation rules and operationalisation of the GST Appellate Tribunal—strengthen ease of doing business. The approval of simplified registration for small suppliers selling through e-commerce platforms enables rural entrepreneurs, FPOs, SHGs and artisans to participate more confidently in national digital markets, improving formalisation and income opportunities.

Taken together, GST 2.0 functions not merely as a fiscal correction but as a structural instrument of inclusive rural transformation. By reducing structural inefficiencies, improving value-chain efficiency, expanding non-farm employment, promoting sustainability, and enhancing rural welfare, the reforms hold the potential to reshape rural business ecosystems and strengthen long-term development trajectories. Their combined impact is likely to influence livelihoods, productivity, sectoral linkages and rural development trajectories in profound ways.

7. Conclusion

This paper has conceptually examined the implications of the Next-Generation GST Reforms (GST 2.0) on agriculture, agri-value chains, and rural livelihoods in India. By integrating Fiscal Reform Theory, the Sustainable Livelihoods Framework, and Value-Chain Analysis, the study demonstrates that GST 2.0 represents not merely a tax rationalisation exercise but a structural intervention with transformative potential for rural India.

The earlier GST framework, while successful in unifying markets and enhancing transparency, created input–output asymmetries, blocked input tax credits, and compliance burdens that disproportionately affected farmers, FPOs, rural MSMEs, and small processors. GST 2.0 addresses these distortions through targeted rate rationalisation, correction of inverted duty structures, digital compliance simplification, faster refunds, and institutional strengthening. The reduction of GST on agricultural machinery, fertiliser raw materials, bio-pesticides, renewable energy devices, packaging materials, and logistics services is expected to lower production and transaction costs, enhance mechanisation, promote sustainable practices, and improve working capital flows across agri-value chains.

At the value-chain level, reforms in processing inputs, food products, storage, packaging, and transport have the potential to reduce post-harvest losses, narrow farm–retail

price spreads, and stimulate decentralised rural industrialisation. Enhanced competitiveness of MSMEs, artisan clusters, and FPO-led enterprises could diversify income sources beyond primary agriculture and strengthen rural non-farm employment. Simultaneously, lower GST on household essentials and financial protection instruments improves rural purchasing power, consumption stability, and livelihood resilience.

From a broader developmental perspective, GST 2.0 emerges as an instrument of inclusive rural transformation. By aligning fiscal reform with digital governance, formalisation, and sustainability objectives, the reform strengthens institutional linkages between producers, markets, and organised supply chains. However, the magnitude and distribution of these benefits will depend on effective implementation, digital accessibility, administrative efficiency, and complementary policy support.

In conclusion, the Next-Generation GST Reforms hold significant potential to reshape India's agricultural economy by reducing structural inefficiencies, strengthening value-chain integration, enhancing rural competitiveness, and improving household welfare. However, the actual magnitude and distribution of these benefits will depend on effective implementation, regional adaptability, digital accessibility, and institutional capacity. The conceptual framework developed in this paper provides a foundation for future empirical research to assess the measurable socio-economic impacts of these reforms across diverse rural contexts in India.

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