

GST rate cuts and its impact on agriculture and agro-based MSMEs: An evidence from Bihar, India

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Abstract: The Goods and Services Tax (GST) rate cut by the Government of India, effective from 22 September 2025, is the biggest transformation in indirect taxation. Bihar, with its strong agricultural base and expanding agro-based industries, including food processing, dairy, and beekeeping, is expected to benefit substantially from these tax revisions. This GST rate cut is expected to work as a fuel for existing agriculture and agro-based micro, small and medium enterprises (MSMEs) and may create avenues for the establishment of new MSMEs in this sector. The study critically examines the impact of the GST rate cuts on the performance of agriculture and agro-based MSMEs operating in Bihar. An analytical research design has been adopted using the tax pass-through approach, and the secondary data were obtained from Press Information Bureau releases, GST Council notifications, the GST Portal, and reports published by the Central and State Governments. The study evaluates the implications of GST rate reductions on production costs, price competitiveness, profitability, employment generation, and market expansion among agriculture and agro-based MSMEs. The results show a reduction in the cost of production of MSMEs by 6.16 to 7.19 per cent, leading to lower prices, higher demand, improved profitability, greater competitiveness, employment generation and inclusive growth of the state. However, compliance constraints, limited credit access and weak market linkages may limit the full realisation of benefits of the GST rate cut. The study concludes with policy recommendations aimed at strengthening the effectiveness of GST reforms in promoting sustainable and MSME-led agricultural and rural industrial development in Bihar.

Keywords: Agriculture, Agro-based MSMEs, GST rate cut, tax pass-through, cost competitiveness, GST, inclusive growth

1. Introduction

The Goods and Services Tax (GST), implemented in India with effect from 1st July 2017, is one of the most transformative indirect tax reforms in the country's fiscal history. By amalgamating a large number of Central and State taxes into a single tax, it alleviated the cascading effect of double taxation and paved the way for a common national market (Patil et al., 2017). Over time, the GST regime has undergone several rounds of rationalisation to address concerns related to inverted duty structures, high compliance burden and costs, non-availability of easy Input Tax Credit (ITC) mechanism, etc. GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government (Kaur, 2017). GST rates had various anomalies, and different stakeholders demanded its rationalisation from time to time. Accordingly, vide 56th GST Council meeting, rates of GST on different items were reduced with effect from 22 September 2025 in order to remove the existing anomalies in the GST rate structure. The GST rate rationalisation may boost the national economy. As per the rate rationalisation notification, the rate on many inputs of the agriculture sector as well as final



products of agro-based MSMEs has been lowered and is expected to boost the performance of the agriculture and agro-based MSME sector. The rate cut may reduce the cost of production, lower the rates of essential goods and services, generate demand as well as employment and enhance the level playing field in the agriculture sector and the MSMEs who are directly or indirectly dependent on agriculture.

MSMEs are the backbone of the Indian economy, since it contributes nearly 30% to GDP and 48% to exports and provide employment to more than 394 million people. MSMEs are the second-largest employer after agriculture (Hussein et al., 2025). Bihar has a limited number of large-scale industries and high dependence on agriculture, traditional, and informal sectors. Therefore, agriculture and agro-based MSME sector can play an important role in holistic development of this state. MSME ecosystem of Bihar is deeply embedded in agriculture and allied activities, food processing, dairy, beekeeping etc. Products like, Shahi Litchi, Katarni Rice, Magahi Paan, Mithila Makhana, Marcha Rice, Bhagalpuri Zardalu Mango, etc. have received the Geographical Indication (GI) Tag (ipindia.gov.in, 2023). These GI-tagged products have great potential to boost the agro-based MSME Sector in Bihar. Many of these sectors are run by farmers, family labour, women-led self-help groups, etc. Women-led MSMEs in Bihar operate across diverse sectors (Deptt. of Industries, Govt. of Bihar, 2023). Recently, India has signed a Free Trade Agreement with the European Union that enables deep market access, which opens 97% of EU tariff lines and zero-duty entry for labour-intensive exports worth about USD 33 billion. It offers preferential access for farm as well as processed food products and thus is expected to create competitiveness and income prospects across MSMEs, farmers, service providers and workers (PIB, 2025c).

The implementation of GST will also favour the National Agricultural Market by unifying the taxation of agricultural products (Khed & Makarabbi, 2017). The recent GST rate cut may have a significant impact on agro-based MSMEs and is expected to be the key initiative for MSME development in Bihar. It is expected that lower GST rates would reduce agriculture inputs, enhance production, improve working capital cycles, stimulate demand and enhance competitiveness among Bihar-based MSMEs in domestic and international markets for agro-based products. However, the actual impact of GST rate cuts varies across sectors depending on their impact on inputs, market conditions, demand, production and scale of operations. Despite the significance of this reform, there is limited empirical evidence assessing its sector-specific effects on Bihar's agro-based MSMEs. This paper seeks to bridge this gap by providing an integrated, Bihar-focused assessment of agriculture and agro-based MSME sectors within a single analytical framework.

Therefore, the objective of this study is to undertake a sector-wise critical examination of the impact of recent GST rate cuts on agro-based MSMEs working in Bihar, with respect to reduction in input cost, demand expansion, employment generation, scope for establishment of new business and its contribution to the economy of Bihar.

Accordingly, the research questions for this study are as follows:

RQ1: What is the impact of GST rate cuts effective from 22.09.2025 on the cost of production of agriculture and agro-based MSMEs working in Bihar?

RQ2: How does the reduction in input cost influence MSMEs' competitiveness, market access, employment generation, livelihoods and financial status of the state?

The study contributes to the existing literature by providing state-level empirical assessments of the impact of the GST rate cuts effective from 22.05.2025 on MSMEs in Bihar. It develops and tests a comprehensive impact chain linking tax rate reductions to cost of production, pricing behaviour, demand enhancement, firm-level competitiveness and market access. Further, the analysis examines broader socio-economic outcomes such as employment generation, improvement in livelihood and the financial status of the state. By integrating fiscal policy analysis with the performance of MSMEs, the study offers a holistic framework that advances theoretical understanding of tax pass-through and will generate policy-relevant insights for strengthening the performance of agriculture and agro-based MSMEs and promoting regional economic growth. This paper is outlined as follows: Section 2 depicts a review of the literature and conceptual framework of the study. Section 3 indicates the research methodology for this analytical

research. Section 4 contains results and discussion along with tables and figures depicting analytical findings. Finally, Section 5 states the conclusion, policy implications, and suggestions of the study.

2. Literature Review

The economy of Bihar state is predominantly agrarian, and a large section of the population depends directly on agriculture (Deptt. of Industries, Govt. of Bihar, 2023). GST is expected to have both positive and negative impacts on the farm sector (Arti et al., 2017). Research focusing on agriculture and allied sectors suggests that lower GST rates on inputs such as fertilizers, machinery and agro-processing have the potential to reduce costs and improve farm productivity (PIB, 2025b). Existing literature on the impact of GST on these MSMEs in India highlighted mixed outcomes. Several studies reported that GST has improved tax transparency, reduced logistical barriers and facilitated interstate trade (Bidla & Jain, 2024; Kumar, 2025). At the same time, researchers have pointed out that small enterprises initially faced challenges related to compliance complexity, digital filing requirements and delayed refunds (Goyal, 2024; Riya & V.N., 2025). International studies find that the after-tax price of some commodities increases by exactly the amount of the tax on some commodities, whereas in other commodities, an increase in tax revenue of one dollar per unit increases the price by more than one dollar (Besley & Rosen, 1999). Prices respond more strongly to increases than to decreases in value-added taxes (VATs) (Benzarti et al., 2020). Sector-specific studies indicate that GST has had multi-variate impacts, benefiting organised manufacturing and exports sectors while exerting short-term pressure on informal and traditional sectors (D. K. Singh & Singh, 2024). GST reforms have expedited the modernisation and growth of MSMEs but it is also necessary to have quality and consistency in policy support to grow the long-term policy effectiveness (Karthik & Nandini, 2025). GST will be beneficial for the MSMEs in the long run by making them more competitive (Shruti & G.P., 2023). GST rate reductions can enhance price competitiveness and demand, particularly for GI-tagged and export-oriented products. However, only a few studies offer a comprehensive sector-wise analysis of GST rate cuts and their implications on agro-based MSMEs. Moreover, the studies focusing on the impact of GST rate cuts on agriculture and agro-based MSMEs working in Bihar state are very limited. Therefore, to fill the gap, this study aimed to investigate the impact of this GST rate cut on agriculture and agro-based MSMEs working in Bihar.

2.1 Conceptual Framework

This study explains how the GST rate cut influences the performance of agriculture and agro-based MSMEs working in Bihar. The conceptual model suggests that the reduction in GST rates acts as a moderator that directly lowers the tax component element on input cost and price of finished products of these MSMEs. GST rate cut may work as a transmission mechanism affecting production costs, pricing strategies, demand conditions, market potential, employment generation, livelihood and operational efficiency of agriculture and agro-based MSMEs in Bihar. Figure 1 depicts the conceptual framework for the sequential transmission mechanism through which GST rate cuts influence the performance of agriculture and agro-based MSMEs as well as the economy of the state.

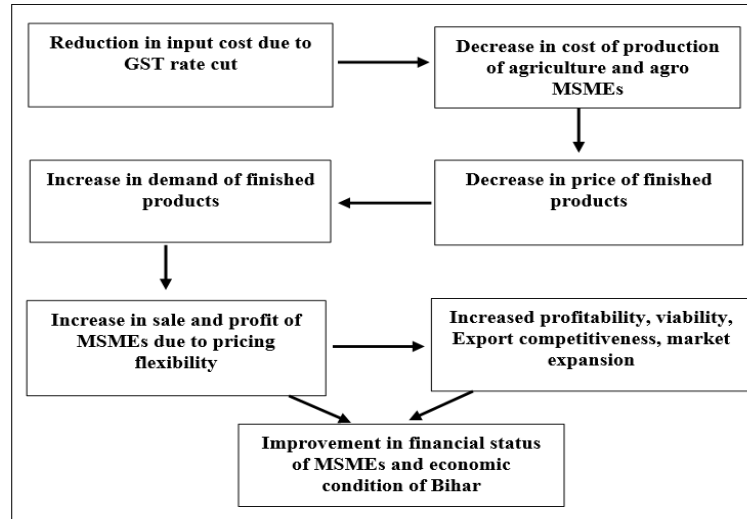


Figure 1: Author's conceptual framework of the study

2.2 Research Methodology

The study employs an analytical research design to assess the impact of GST rate cuts on cost of production, pricing of finished products, demand generation and other factors of agriculture and agro-based MSMEs. The study is based on secondary data, and it was collected from Press Information Bureau (PIB) releases, GST Council notifications, GST website, published reports of the Ministry of Agriculture, Ministry of MSME, Ministry of Finance, and other government publications of the state as well as the central government. The study first identifies the key agriculture and agro-based MSME sectors working in Bihar on which this rate had direct or indirect impact. The extent to which a GST rate cut is affecting the cost of production and price of finished goods depends on the degree of tax pass-through, which is rarely complete in the short run. The concept of pass-through coefficient (α) is bounded between zero and one and is well established in both theoretical and empirical literature (Fullerton & Metcalf, 2002). Accordingly, as per the application requirement, the formula used in this study for determining indirect tax pass-through and deriving its impact is as detailed below:-

$$\text{Formula: } CR = (R_{pre} - R_{post}) \times \alpha \quad (i)$$

Where

CR: % Estimated Cost Reduction

R_{pre}: Applicable GST rate prior to rate cut

R_{post}: Revised GST rate after rate cut

α : Pass-through coefficient ($0 < \alpha \leq 1$)

Wherever tax reduction occurred in more than one input, average cost reduction is calculated keeping in mind other factors constant, and the same is depicted as below:

$$\text{Formula: } ACR = (\sum CR1 + CR2 + CR3 + CR4 + \dots + CRn) / n \quad (ii)$$

Where

ACR: Estimated Average Cost Reduction

CR1: Average Cost Reduction due to GST rate cut on input 1

CR2: Average Cost Reduction due to GST rate cut on input 2

CR_n: Average Cost Reduction due to GST rate cut on input n

n: number of inputs for a particular MSME sector

3. Results and Discussion

3.1 Sector-wise impact analysis of GST rate cuts

The empirical findings suggest that the GST rate cut has had a positive but uneven impact across different sectors. The extent of improvement depended on the nature of the industry, the scale of tax reduction, and the ability of firms to pass tax savings on to consumers. Table 1 presents an overview of GST rates applicable before and after the date of revision of GST, i.e. 22.09.2025, and estimates the average percentage cost reduction accruing to agriculture and agro-based MSME sectors in Bihar, keeping other factors constant.

3.2 MSME: Sector-wise impact analysis of GST rate cut effective from 22.09.2025

Agriculture

Bihar is purely an agrarian society with a large portion of its workforce dependent upon agriculture and its allied activities (Saurabh & Behera, 2025). Agriculture remains the primary source of livelihood in Bihar, engaging nearly 76% of its population. GST rate on agricultural tools and machinery, tractors, irrigation equipment, and inputs like fertilizers and micronutrients has been reduced from 12% and 18% to 5% and expected to lower the average agro production cost by 6.74%. Input cost reduction may improve affordability for small and marginal farmers, increase productivity and boost agriculture and allied MSME sectors in Bihar. Previous studies demonstrated that lower production costs and increased access to modern agricultural inputs improve operational efficiency, crop productivity, and farm income and had positive spillover effects for agro-processing and agriculture-based MSMEs (FAO, 2014; Pingali, 2007; World Bank Group, 2008). The result also aligned with earlier study where a decline in tax rate influences the cost of agricultural inputs and may increase its usage (Singh et al., 2018).

Table 1: Sector-wise impact analysis of GST rate cuts on MSMEs in Bihar

Sector	Key Products / Activities on which GST has been reduced 22.09.2025	Pre-GST Rate (%)	Post-GST Rate (%)	A	Tax Pass Through (%)	Estimated Cost reduction (%)	Avg. Est. Cost reduction (%)	MSMEs having positive impact
Agriculture	Tractors, irrigation equipment, agricultural tools & machinery, inputs for fertilizers and micronutrients	12	5	0.58	58.33	4.08	6.74	Agriculture, food processing & Agro machinery-based MSMEs
		18	5	0.72	72.22	9.39		
Food Processing	Makhana, litchi, snacks, pickles, juice, processed foods, bakery, sauces etc.	12	5	0.58	58.33	4.08	6.74	Food processing, Makhana, Litchi & export MSMEs
		18	5	0.72	72.22	9.39		
Dairy	UHT milk, paneer, Ghee, butter, ice-cream	5	0	1.00	100.00	5.00	6.16	Farmers, Cooperatives, SHGs, Transporters & other MSMEs
		12	5	0.58	58.33	4.08		
		18	5	0.72	72.22	9.39		

		18	5	0.7 2	72.22	9.39		
Fertilisers and Agro-Inputs	Micronutrients, ammonia, sulphuric acid, gibberellic acid and nitric acid	12	5	0.5 8	58.33	4.08	6.74	Agro and agro-allied MSMEs, Farmers
		18	5	0.7 2	72.22	9.39		
Agricultural Machinery Manufacturing	Tractors, Harvesters, pumps, irrigation equipment, key parts such as tyres etc.	12	5	0.5 8	58.33	4.08	6.74	Agro Machinery manufacturing & allied MSMEs
		18	5	0.7 2	72.22	9.39		
		18	5	0.7 2	72.22	9.39		
Honey and Beekeeping	Honey and allied industries	5	0	1.0 0	100.00	5.00	7.19	Beekeepers, self-help groups, and allied MSMEs
		18	5	0.7 2	72.22	9.39		

Source: Author's calculation on secondary data using degree of pass-through coefficient of indirect taxes (Fullerton & Metcalf, 2002)

3.3 Food Processing

Reduction of GST on food items to 5% or NIL benefits not only consumers but also the youth involved in the food processing value chain like farmers, cooperatives, MSMEs, retailers, and exporters (PIB, 2025c). Research on India's food-processing sector highlights that supportive government policies and an enabling fiscal environment are essential for improving firm competitiveness and attracting investment, expanding domestic as well as international market opportunities (Gupta, 2025). MSME clusters of Patna, Hajipur and Bhagalpur handle a wide variety of processed foods where many micro-units and women-led SHGs are engaged in the production of snacks, pickles, bakery, sauces, etc. Bihar dominates in the production of makhana, accounting for more than 85% of the total production of India. It is mainly cultivated and processed in Madhubani, Darbhanga, Sitamarhi, Saharsa, Katihar, Purnia, Supaul, Kishanganj and Araria districts of Bihar. The study reveals that input prices, technology adoption, and profitability across the agricultural and food-processing value chain are influenced by the changes in GST rates on agro-processing inputs and machinery (Singh et al., 2018). GST was reduced on processed foods, snacks, biscuits, juices and pickles from 12% / 18% to 5% and is expected to lower average input cost by about 6.74%. This reduction may benefit food-processing MSMEs by enhancing the competitiveness of local processors, supporting domestic and international demand, strengthening profit margins, easing working capital stress, enhancing export potential and thereby encouraging value addition to the state economy. The findings of earlier researchers indicated that the GST has increased the burden for small food producers in terms of increased inflation, while larger entities in the supply chain get access to input credits (Singh & Sharan, 2026). Empirical studies on India's processed food exports also demonstrate that greater value addition enhances export competitiveness and creates opportunities for food-processing enterprises to expand into global markets (Reddy & Patel, 2023). Therefore, the rate cut definitely improves the situation and minimises the economic disparities between large and small food processors.

3.4 Dairy

The dairy sector of the state is backed by cooperatives and processed as well as marketed by COMFED (Sudha), AMRIT, Rajfresh, Namaste India, Amul, etc. This sector supports more than one million farmers in the state. The present milk production in the state is 128.53 lakhs MT per year and is targeted to be taken up to 159.9 lakhs MT per year by 2028 (Govt. of Bihar, 2026). As per the latest GST rate cut, UHT milk and paneer are now GST-free, whereas GST on ghee and butter has been cut down from 12% to 5%, and ice-cream from 18% to 5%. This GST rate cut may

result in a reduction of the price of these products by 6.16% and stimulate an increase in the demand for these products. The result is duly supported by the research findings, where it was revealed that there is a close relationship between dairy product prices and consumer demand in India, as demand for dairy products is relatively elastic (Singh et al., 2018). It leads to ease of working capital pressures on dairies, strengthens cooperative networks, generates huge employment, improves affordability for households across Bihar and resultantly improves the status of farmers as well as MSMEs working in dairy and allied services. The study reported that demand for milk and dairy products increases with improved purchasing power and favourable market conditions (Ohlan, 2016). Further, the study revealed that changes in household purchasing conditions significantly affect the consumption of dairy products such as paneer, butter, and ice cream (Bhandari et al., 2023).

3.5 Fertilisers and Agricultural Inputs

The economy of Bihar is predominantly agrarian and approximately 76% of the population is dependent directly on agriculture (Department of Agriculture, 2026). GST on ammonia, sulfuric acid and nitric acid was reduced from 18% to 5%, and on micronutrients \ gibberellic acid from 12% to 5%, resulting in a reduction of input cost of fertilisers and pesticides by 6.74%. Resultantly, the input cost for farmers may reduce and thereby agricultural production may increase. Due to these changes, agro-based MSMEs and MSMEs engaged in agro-input distribution in Bihar may have the opportunity to enhance their business in the state. This interpretation is consistent with previous studies, which concluded that affordable fertilizer policies and input subsidies significantly improve agricultural productivity by encouraging greater adoption of fertilizers and balanced nutrient management (Sapkota & Singh, 2025; Zafar et al., 2023). Further, micronutrient application increases crop response and sustains agricultural production in Indian farming systems (Gupta, 2005), while improved nutrient management enhances crop productivity and farm profitability (Sharma & Singhal, 2016).

3.6 Agricultural Machinery Manufacturing

Bihar is a major market for tractors and farm equipment like harvesters, pumps, irrigation equipment, etc. because approximately 90% of farmers of this state are small and marginal (Roy et al., 2023). They are in need of agricultural equipment. Mechanised agriculture process may yield good crop production and lower processing wastage. Recently, GST on tractors, pumps and irrigation equipment have been reduced from 12% / 18% to 5% and on key spare parts such as tyres, etc. from 18% to 5%, and thus farm equipment may become cheaper by 6.74%. Therefore, this GST rate cut will stimulate demand in this sector, create new avenues for production of agricultural equipment and benefit the existing MSMEs working in this industry. The scarcity of labour during peak season can be addressed through mechanisation, and the rate cut is a boon in the sector of agricultural machinery (Singh et al., 2018). This interpretation is consistent with previous studies, which revealed that mechanised agricultural systems and the adoption of complementary technologies enhance productivity and farm income (Jena & Tanti, 2023; Rajkhowa & Kubik, 2021). Furthermore, evidence indicates that reducing economic barriers to machinery ownership and access among small units promotes mechanisation and stimulates investment and avenues in farm machinery manufacturing, distribution, and service provision (Aryal et al., 2021; Burman et al., 2025; Sarkar, 2020).

3.7 Honey and Beekeeping

The honey cluster of Muzaffarpur is one of the key apiculture hubs in Bihar, and more than 750 beekeepers are working in this district alone. The litchi honey produced in Bihar has better taste, colour and flavour than the honey produced in other states due to variation in ecological conditions (Ministry of MSME, 2019). Big brands like Dabur, Patanjali, Baidyanath, etc. are purchasing honey from producers, farmers and women entrepreneurs from Bihar. India exported around 1.07 lakh metric tonnes (MT) of natural honey worth USD 177.52 million in FY 2023-24 (PIB, 2025a). A good quantity of honey is being exported to the USA, the Middle East, Europe, etc. Recently, the rate of GST has been reduced from 5% / 18% to 0%/5% on these products and are expected to price reduction by 7.19% and thereby enhance the demand, improve the profit margin and strengthen the economic condition of bee keepers, self-help groups and MSMEs associated directly or indirectly with this industry in Bihar. These findings are consistent

with previous studies showing that value addition, efficient marketing, and improved market access increase the profitability of beekeepers and honey-processing enterprises (Sharma et al., 2020; Singh & Sekhon, 2014). Furthermore, research on honey value chains in India demonstrates that stronger marketing efficiency and greater value addition increase producers' share in consumer prices, thereby improving the economic condition of beekeepers, self-help groups, and honey-processing MSMEs (Midhun et al., 2022; Patil et al., 2025). Therefore, the observed reduction in GST may improve market competitiveness, encourage demand, and create additional business opportunities for honey-based MSMEs in Bihar.

Cross-Sectoral Assessment of Traditional and Emerging MSMEs

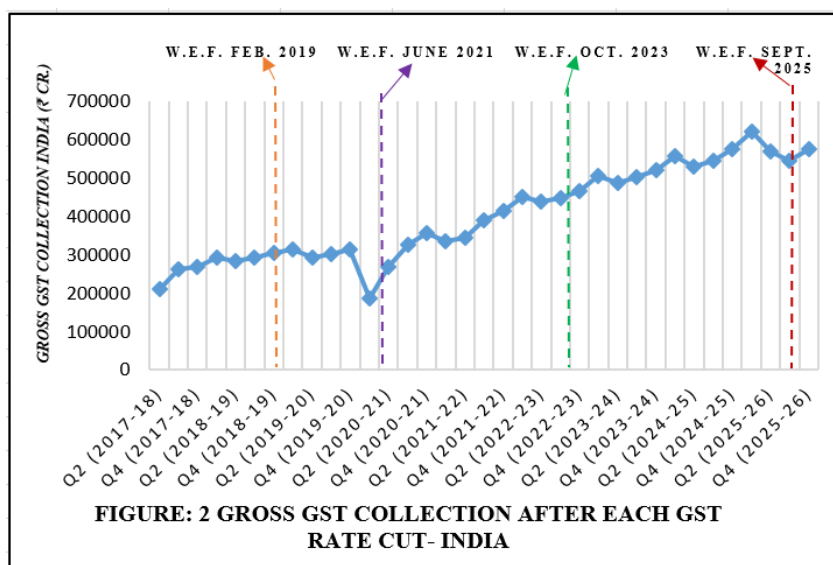
The GST Impact framework for MSMEs in Bihar, as shown in Table 2, demonstrates that GST rate cuts have the strongest multidimensional impact on traditional MSMEs.

Table 2: GST Impact framework for MSMEs in Bihar				
Sector	Input cost reduction	Increase in demand	Impact on employment	Export Competitiveness
Traditional MSMEs	High	High	High	Medium to High
Emerging MSMEs	Medium to High	Medium	Medium	High
<i>Source: Author's own calculation based on secondary data</i>				

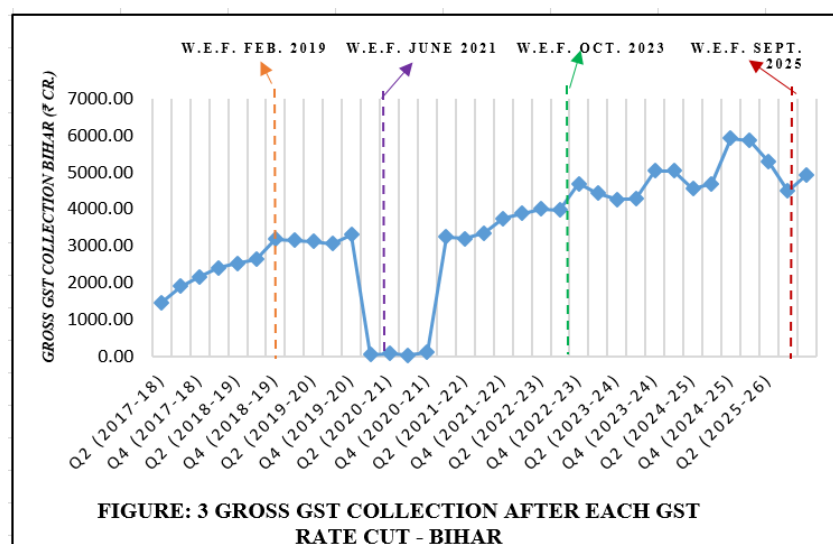
This rate cut may have a high impact on input cost reduction as well as on demand and employment generation, but a medium to high impact on export competitiveness for traditional MSMEs. Traditional MSMEs like agriculture-based processing and dairy are expected to derive higher benefits from these GST rate cuts. These sectors are labour-intensive, regionally embedded and dominated by micro units, women-led SHGs and farmers. Lower GST rates directly translate into reduced prices, improved demand elasticity and more stable incomes for them. The findings aligned with a study where it finds that GST reduced the taxation on the agricultural value chain and improved the efficiency of agro-processing MSMEs (Singh et al., 2018). GI-tagged products such as Mithila Makhana, Shahi Litchi, Katarni Rice, Magahi Paan, Marcha Rice, Bhagalpuri zardalu mango, etc. may gain enhanced domestic and export competitiveness due to reduced tax-induced price distortions. However, as far as emerging MSMEs are concerned, this GST rate cut would have medium to high impact on their input cost reduction, medium impact on increase in demand and employment and high export competitiveness. Findings supported the study which revealed that micro units contribute significantly to economic growth and generate employment (Beck et al., 2005). Emerging MSME sectors, like agricultural machinery and honey processing, may benefit primarily through scale effects and cost efficiencies. GST rationalisation may lower CAPEX and OPEX, enable these enterprises to expand operations, integrate into national supply chains and improve formalisation. GST gives an opportunity to informal MSMEs to get formalised to improve their efficiency and productivity, and earlier literature supports the findings (World Bank Group, 2021). However, the benefits in these sectors are more dependent on complementary factors such as access to finance, infrastructure, market linkages, effective implementation of government schemes and policy implementation.

The study revealed that GST rate rationalisation has a clear pattern of cost relief, demand stimulation and improved competitiveness among agriculture and agro-based MSME sectors in Bihar state. The findings of the study are in line with the past trend where Gross GST collection of India, as shown in figure-2, had an incremental trend after each GST rate cut. Further, as shown in figure-3, Gross GST collection of Bihar state after each GST rate cut also has an incremental trend except for the rate cut during the COVID-19 period and supports the findings of this study. The findings indicate that GST rate rationalisation is associated with cost relief, improved competitiveness, and higher demand in agriculture and agro-based MSMEs in Bihar. These findings are broadly consistent with previous studies reporting that GST reforms improve operational efficiency, reduce tax-related distortions, strengthen formalisation, and enhance MSME competitiveness (Bhalla et al., 2024; Majumder et al., 2021; Singh et al., 2018). Moreover, the descriptive trend in Figures 2 and 3 shows that gross GST collections in India and Bihar generally followed an upward trajectory after successive GST rate rationalisations, except during the COVID-19 disruption.

While this trend should not be interpreted as evidence of a direct causal effect, it is consistent with the view that GST rationalisation, together with improved compliance, expanding economic activity, and broader tax base formalisation, can support sustained revenue growth and business development.



Source: www.gst.gov.in



Source: www.gst.gov.in

3.8 Summary

The present study provides a comprehensive sector-wise analytical assessment of the impact of the GST rate cut effective from 22 September 2025 on agriculture and agro-based MSME sectors operating in Bihar. Major findings of the study are as under:

Reduction in production cost: The GST rate cuts may result in a reduction in capital expenditure (CAPEX) and operating expenditure (OPEX) for MSMEs working in agriculture and agro-based industries. The estimated cost reduction ranges between 6.16 percent to 7.19 per cent. For micro and small enterprises operating on thin margins,

this reduction may ease working capital stress, improve liquidity position, enhance production and demand and improve performance.

Price competitiveness and demand expansion: Lower GST incidence may enable agriculture and agro-based MSMEs to reduce output prices, making their products and services more affordable in price-sensitive domestic and international markets. Traditional MSMEs such as dairy and food processing may have experienced relatively higher demand responsiveness and thus stimulate domestic and international consumption, strengthening market absorption capacity for them.

Employment generation and improvement in livelihood: Due to cost saving among enterprises, labour-intensive sectors like agriculture, food processing, dairy and bee-keeping are likely to witness enhanced employment generation and income stability among farmers, women-led SHGs, allied business and informal workers.

Enhancement in export competitiveness: GST rationalisation has reduced tax-induced price distortions for GI-tagged and export-oriented products such as Mithila makhana, honey, processed food and other agriculture products. When combined with the recent India–EU Free Trade Agreement, MSMEs of Bihar can enhance their export competitiveness by taking the benefit of this GST rate cut.

Structural and institutional constraints: Despite clear benefits, the study identifies persistent challenges such as limited compliance capacity among micro enterprises, inadequate access to affordable credit, weak export facilitation mechanisms and insufficient market linkages, particularly for informal and rural MSMEs. These factors may constrain the full realisation of benefits available in the recent GST rate cut.

4. Conclusion and Policy Recommendations

Bihar is an agrarian state and 70 per cent of the population of this state is dependent on agriculture. This state has all the ingredients and potential for holistic development of agriculture and agro-based MSMEs. As a result, the GST rate cut effective from 22.09.2025 is expected to reduce the CAPEX and OPEX of MSMEs by 6.16 to 7.19 per cent, resulting in a reduction in the price of finished products of agriculture and agro-based MSMEs. It will stimulate domestic and international demand for products, increase profitability, viability and competitiveness among agriculture and agro-based MSMEs. On the other hand, it will create avenues for employment, give better livelihoods, and contribute to inclusive growth of the state. This GST rate cut may provide affordable agriculture inputs and instruments for farmers in Bihar state, resulting in an enhancement in production and ease in availability of raw materials for agro-based food-processing MSMEs. After this GST rate cut, the recent India - European Union free trade agreement will work as a fuel to enhance export potential among MSMEs. Overall, the findings confirm that the impact of this GST rate cut may not merely be a fiscal reform but a strategic development instrument for holistic development of agriculture and agro-based MSME ecosystem of Bihar. However, the realisation of its full benefits depends critically on complementary policy actions at both the central and state levels. The following policy implications emerge from the analysis:

Framework for integration with credit and working capital support: Cost savings from GST rate cut must be complemented by access to affordable credit by aligning them with credit schemes such as CGTMSE, PMEGP, PMFME, MSME Growth Fund and interest subvention program of the state. These initiatives will enable MSMEs to reinvest tax savings into scale expansion, technology upgradation and employment generation.

Targeted training for improvement in compliance and digital capacity: Limited GST compliance capacity remains a binding constraint for micro enterprises and SHGs working especially in semi-urban and rural areas. Therefore, targeted decentralised GST facilitation and training centres at village, block and district levels in local languages are necessary to improve registration, return filing, ITC utilization and refund access skills and facilities among micro and unregistered units so that the recent GST rate cut can be translated into real financial gains for them.

Cluster-based policy convergence: Traditional clusters such as Mithila makhana, food processing, fruits and vegetables, bee-keeping, poultry, fishing, etc. require integrated support by converging them with cluster development

schemes like SFURTI, ODOP, etc. and can help MSMEs to convert this GST rate cut-enabled price competitiveness into sustainable productivity and market expansion. Coordinated implementation can get the benefit of GST rate cuts and the India- EU free trade agreement translate into sustained MSME growth and inclusive development in Bihar.

Establishment of export promotion and trade facilitation center: GST rate cuts combined with the India–EU Free Trade Agreement may enhance export potential for Bihar-based MSMEs working in agriculture and agro-based products. The benefit of these initiatives can be derived by making provision of policy-focused simplified refund mechanisms, export facilitation cells, quality certification facility, development of a cargo hub with direct logistics transportation connectivity with ports/airports and integration with export promotion councils.

MSME Policy intervention for employment generation: Labour-intensive MSMEs, such as agriculture, food processing, dairy, etc. offer high employment elasticity and linking this GST rate cut with skilling, formalisation, and social security measures can maximise employment and livelihood outcomes in Bihar state.

Abbreviations

AYUSH: Ayurveda, Yoga, and Naturopathy, Unani, Siddha and Homoeopathy; CAPEX: Capital Expenditure; CGTMSE: Credit Guarantee Scheme for Micro & Small Enterprises; COMFED: Bihar State Milk Co-operative Federation Ltd; EU: European Union; GDP: Gross Domestic Products; GI Tag: Geographical Indication Tag; GST: Goods and Services Tax; MSME: Micro, Small and Medium Enterprises; MT: Metric Tonne; ODOP: One District One Product; OPEX: Operating Expenditure; PMEGP: Prime Minister’s Employment Generation Programme; PMFME: Pradhan Mantri Formalisation of Micro Food Processing Enterprises Scheme; RAMP: Raising and Accelerating MSME Performance; PIB: Press Information Bureau; SFURTI: Scheme of Fund for Regeneration of Traditional Industries; SHG: Self Help Group, UHT: Ultra-High Temperature

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Authors Contribution

Mani Shanker Singh: Conceptualisation, literature review, methodology, data collection, writing the original draft.

Ashish Ranjan Sinha: Offered supervision throughout and suggestions.

Tulika Kumari: Conceptual framework development and structure support, review and editing of the original draft.

Conflict of Interest

The authors declare that there is no conflict of interest.

Ethics Approval

Not Applicable

Data Availability

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The authors confirm that no generative artificial intelligence (AI) or AI-assisted technologies were used and all scholarly content, arguments, and theoretical contributions are the original work of the authors.

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