

## Why Is a Tractor Taxed Like a Luxury Car? – The ₹56,500 Crore Question”

*India's tractor-owning farmers pay approximately ₹56,500 crore in taxes on diesel every year — this includes road cess, even though tractors are prohibited from plying on highways. In 9 countries across the world, agricultural diesel is exempt from tax or receives a rebate; in India, however, this is not the case.*

Imagine — you are paying highway toll every single day, but you never drive on the highway. Your vehicle spends its entire life in fields, on muddy tracks, and between crop rows. Yet the government levies an expressway tax on every litre of diesel you pump.

This is the daily reality of 1 crore tractor-owning farmer families in India. The tractor is the single most important machine in Indian agriculture. While experts in the air-conditioned offices of the Finance Ministry debate economic policy, GDP growth, and fiscal deficits, the farmer in the field pays a completely unjust price for diesel. This is an unjust tax on every litre of diesel consumed by the tractor that produces food for 140 crore people.

Enough is enough. The farmers' demand is clear: completely abolish all taxes on diesel used in tractors for agricultural purposes, eliminate all old surcharges, and permanently abandon the rules that equate tractors with luxury cars!

*"Farmer Babarao from Beed district, Maharashtra, says: 'My tractor consumes an average of 300 litres of diesel every month. I pay thousands of rupees in taxes on it. If this money stayed with me, I could use it for my children's education.'"*

### **1. A Tractor Is Not a Mercedes Car**

At the heart of India's diesel taxation lies a fundamental double standard. Tractors have for years been measured within a financial framework designed for luxury cars and SUVs. In the government's fiscal imagination, the tractor has been lumped together with Mercedes and BMW. This is not merely illogical — it is a tragic reality. A tractor is not an instrument of personal luxury. It ploughs the soil to grow wheat, transports vegetables to markets, supplies sugarcane to sugar factories, sows seeds, runs spraying equipment, and operates threshing machines. Without tractors, running the agricultural system today has become virtually impossible.

And yet, an expressway cess is levied even on tractors — even though tractors are explicitly prohibited from driving on such expressways and fast-access highways, this tax is collected from tractor owners through the levy on diesel. This is fiscal policy written without ever stepping into a field or keeping faith with the black soil.

While cars like Mercedes or BMW are articles of consumption and luxury, a tractor is a means of production that contributes to our country's Gross National Income. To view both through the same fiscal lens is extremely foolish and economically inconsistent." — Rajan Kshirsagar, Akhil

Bharatiya Kisan Sabha

Farmers have consistently demanded a statutory, permanent, separate classification for this. It is essential to create a legal classification that places agricultural tractors in an entirely separate category from other motor vehicles for the purpose of taxation.

## 2. A Tale of Two Fuels

Particularly shocking is the fact that the government maintains a starkly different outlook on Aviation Turbine Fuel (ATF) compared to diesel used in tractors and agricultural equipment. This discrimination is a 'fiscal arrangement built on two contradictory principles.'

### A red carpet for the aviation sector —

How much care do the central and state governments take for aviation fuel?

- **Exemption from central excise duty:** The government reduced excise duty on diesel to zero on 27 March 2026, but special arrangements for aviation fuel continue.
- **1–4% VAT on ATF across states:** Uttar Pradesh levies only 1% VAT on ATF. Bihar reduced it from 29% to 4%. Central ministers write letters to states recommending reductions in ATF VAT.

### A punitive arrangement for diesel —

Now look at the other side:

- Maharashtra levies **21% VAT on diesel** — far higher than the 1–4% on ATF. Diesel VAT in Gujarat is 14.90%, in Goa 18.09%, in Kolkata 17%, in Chennai 11%.
- **Discrimination in central taxes too:** The Special Additional Excise Duty (SAED) on diesel is ₹24 per litre, while the Road and Infrastructure Cess (RIC) is ₹36 per litre. Together, the central government's excise duties and cesses (SAED + RIC + AIDC + NCCD + BED) total approximately ₹64 per litre – of which the Road and Infrastructure Cess alone is ₹36, even though tractors never use expressways
- **Road cess levied even though tractors don't use highways — this is the gravest injustice.**
- **No minister writes a letter for farmers:** Unlike the Civil Aviation Ministry's campaign to reduce states' VAT, no minister writes a letter for tractors. No minister has ever warned that higher diesel VAT will harm agriculture.

*"When ATF prices rise, the government reduces excise duty, grants exemptions, and ministers write letters to states. When farmers are crushed under the burden of diesel prices, the government stays completely silent. This is not neglect — it is a deliberate, sustained class bias."* — Akhil Bharatiya Kisan Sabha

*"Delhi levies 25% VAT on ATF, yet central ministers still request other states to keep it at 1% VAT. Maharashtra levies 21% VAT on diesel — for this, not a single letter."*

## 3. The Tax Structure Behind ₹90 Diesel (Status as of April 2026)

**Important date:** On 27 March 2026, the central government had temporarily reduced excise duty on petrol and diesel in wartime conditions. However, from 11 April 2026, SAED was raised again to ₹24/litre and RIC to ₹36/litre. These erratic changes have made it difficult for farmers to estimate their expenses.

No.	Component	Amount (₹/litre)	Notes
1	Retail Selling Price (RSP) at pump	₹90.03	Final price
(A)	Central taxes and cesses	₹64.48	
1.1	Basic Excise Duty (BED)	₹1.80	

No.	Component	Amount (₹/litre)	Notes
1.2	Special Additional Excise Duty (SAED)	₹24.00	Effective from 11 April 2026
1.3	Road and Infrastructure Cess (RIC)	₹36.00	Tractors don't use expressways!
1.4	Agriculture Infrastructure Development Cess (AIDC)	₹2.68	Funding agriculture by taxing farmers — a paradox
1.5	National Calamity Contingent Duty (NCCD)	₹0.25–0.50	A temporary tax from 25 years ago still continuing
(B)	Maharashtra state taxes	₹21.54	
2.1	VAT	₹17.53	21% VAT — enormous compared to 1–4% on ATF
2.2	VAT surcharge	₹4.01	22.8% surcharge on 21% VAT
(C)	Dealer commission and transport charges	₹4.01	

**Method of calculating base fuel price:** According to a Times of India report, when the central government reduced excise duty, oil companies recouped the depot price. Therefore, directly calculating the 'base fuel price' is practically impossible, as only the oil companies know this figure (and it is itself a variable calculation). Hence the 'base fuel price' or 'internal sum of components' is not publicly available, as it is a 'corporate trade secret' of the companies.

Based on this, the base price of diesel is approximately ₹80 per litre. In Mumbai, 21% VAT on diesel amounts to a tax of ₹17–18, while in Punjab the price of diesel is approximately ₹88 per litre. Total taxes are more than 40% of the price.

**The gravest injustice: Road Cess — tractors not only don't use expressways, they are outright banned from driving on them!** What infrastructure does a tractor actually use? It uses fields.

Levying road and highway charges on a tractor is like charging a boat a railway surcharge.

**Agriculture Infrastructure Cess (AIDC) — the cruelest irony:** Agricultural infrastructure funds are raised by taxing farmers themselves — this amounts to 'collecting funds from one's own pocket.'

**National Calamity Contingent Duty (NCCD) — an obsolete cess:** Introduced in 2001 as a temporary measure, this cess continues to drain farmers' income even today. There is no review of this outdated tax — no discussion in any forum, whether Parliament, ministry, state, or centre.

#### 4. The Arithmetic of ₹56,500 Crore

According to the Petroleum Planning and Analysis Cell (PPAC):

Component	Figure
India's total diesel consumption (FY 2025–26)	Approx. 94 lakh metric tonnes (MMT)
Conversion to litres	110 billion litres (1 tonne ≈ 1,176 litres by density)
Tractor's share	Approx. 7.4% of total diesel
Annual diesel consumption by agricultural	7.86 billion litres

Component	Figure
tractors	
Central tax revenue from tractor diesel	Approx. ₹47,000 crore
State tax revenue from tractor diesel	Approx. ₹9,500 crore
Total annual tax burden	₹56,500 crore

**To understand this figure in context:** ₹56,500 crore is more than the annual budget of several states.

**Per-farmer arithmetic:** With 1 crore tractor-using farmer families, the annual tax burden amounts to approximately ₹56,500 per tractor. This sum sits permanently on the farmer's head like an unavoidable, unending loan instalment. This amount equals 15 to 20 percent of the annual income of many farmer families.

### 5. The Double Burden on Tractor-Owning Farmers

More than one crore tractor-owning farmers across the country have taken these tractors primarily through loans from banks or financial institutions. The interest rates charged on tractor loans are a noose around the neck. Nationalised banks charge interest at rates of 9.50% to 11.50%, while private banks offer loans at 10.00% to 12.50%. HDFC Bank charges 10.75% to 28%, ICICI Bank 13.25% to 19.25%, Axis Bank 15% to 19.25%, and Kotak Mahindra Bank charges as high as 9.50% to 30.50%. In some cases, finance company interest rates on tractor loans go up to 28% to 30.50%. This means that in addition to the principal loan, the farmer ends up repaying almost one and a half times the original amount as interest.

The exorbitant penalties incurred if loan instalments are overdue are an entirely separate matter! To add insult to injury, tractor loans have routinely been excluded from loan waiver schemes.

The tractor-owning farmer must pay exorbitant taxes on diesel — at luxury car rates!

The tractor-owning farmer must pay extremely high interest rates on his tractor loan!

He must not ask for any concession on his tractor loan!

He must comply with all new government vehicle regulations!

The ruling classes of this country must surely be confident that by muzzling farmers in this way, prosperity will come to the agricultural sector.

In reality, the situation is different. According to data available from various sources: In Punjab, the average tractor loan is approximately ₹7.2 lakh, and the proportion of debt-ridden tractor-owning farmers there is 82%. In Maharashtra, the average tractor loan is approximately ₹6.8 lakh, with 78% of tractor-owning farmers in debt. In Telangana, the average tractor loan is up to ₹5.5 lakh, and 69% of tractor-owning farmers are in debt. In Uttar Pradesh, the average tractor loan is ₹5.1 lakh, and 71% of tractor-owning farmers in this state are indebted.

### GST Reduction — Welcome, But 'Half-Measures'

In September 2025, the government took a meaningful step. At the 56th GST Council meeting, GST on agricultural tractors was reduced from 12% to 5%. A saving of 6–7% was achieved on tractor prices. GST on tractor tyres, tubes, and spare parts was reduced from 18% to 5%.

The impact of this tax reduction has also been visible. According to FADA data, in FY 2025–26, retail tractor sales crossed the 10 lakh unit mark for the first time, reaching 10,50,077 units — an increase of approximately 19% compared to the previous year's 8.22 lakh units. Good rains and the

GST reduction contributed to this sales growth. However, purchasing a tractor is a one-time event; burning diesel is a daily occurrence. Over the 15–20-year lifespan of a tractor, the cumulative diesel tax burden is many times greater than the GST savings on the purchase.

*"Buying a tractor at 5% GST and then burning fuel taxed at 50% is like giving a subsidy on the lamp and taxing the sunlight."* — Akhil Bharatiya Kisan Sabha

## 6. What the World Does — Why Can't India?

To protect agricultural machinery and tractors from unnecessary and unjust taxes on diesel, most of the world's major agricultural nations have proactively taken positive steps. While the number of farmers may vary, these countries have granted concessions to the agricultural sector, agricultural machinery, and tractors in their tax systems and subsidies. India's anti-agriculture stance is rare in the world.

**1. European Union — 'Red Diesel' System:** In Britain, there is a full fuel duty refund scheme for agricultural machinery. France, Germany (Germany restarted its agricultural diesel refund from 1 January 2026):

- **Germany (Agrardiesel refund for agricultural purposes):** Farmers and forestry industries in the country receive a refund of 21.48 euro cents per litre (approximately ₹20.03) on the energy tax on diesel from 1 January 2026, providing these sectors annual relief of approximately 430 million euros (roughly ₹4,000 crore).
- **France (agricultural diesel tax concession):** In April 2026, to cope with rising fuel prices due to the Middle East conflict, the French government suspended all excise taxes on diesel used for agricultural purposes between 1 April and 30 April 2026.
- **United Kingdom (agricultural diesel / red diesel special concession):** In Britain, 'red diesel' (permitted only for off-road work) carries a tax of 10.18 pence per litre, whereas regular diesel carries a tax of 52.95 pence per litre. This gives farmers an 80% tax concession. This rate will continue until August 2026.
- **Ireland (₹1,000 crore subsidy):** The government here has announced a special fund of 100 million euros (₹1,000 crore) for the period March 2026 to July 2026. Eligible farmers will receive approximately 20 euro cents per litre as a subsidy (fuel duty refund) for their verified usage. This will be available for green diesel at the rate of 20 cents per litre.

**2. Greece:** Has implemented a direct diesel subsidy of approximately €0.20 per litre (approximately ₹18) for farmers.

**3. Portugal:** Provides a temporary subsidy of 10 euro cents per litre (approximately ₹9) for agriculture and transport.

**4. Australia:** Fuel Tax Credits (FTC) scheme — farmers can reclaim the excise duty on diesel used in farming.

**5. United States and Canada:** Lower rates on coloured diesel for off-road use.

**6. Australia (Fuel Tax Credits — FTC):** The Fuel Tax Credits (FTC) scheme is applicable to agriculture, fishing, mining, construction, tourism, and transport sectors. Under this scheme, excise on fuel not used on roads is refunded.

**7. Canada (provincial tax concessions):** In Canada, under Saskatchewan's 'Farm Fuel Program,' farmers and fishermen can receive an 80% tax concession on their diesel purchases. In Alberta, eligible farmers continue to receive a provincial tax exemption of 9 cents per litre.

**8. South Africa (Diesel Refund Scheme):** Here, eligible farmers and the forestry industry can receive a 100% refund on qualifying expenditure on diesel purchases from 1 April 2026. Previously, this limit was 80%.

**9. Serbia** has made Euro Diesel available to registered farmers at a fixed price of €1.57 per litre within a limit of 100 litres per hectare.

Compared to all of the above, India has no special tax concession for agricultural diesel. Although the central government has zeroed the basic excise duty, taxes such as SAED, RIC, AIDC, and NCCD, along with states' VAT, mean total taxes exceed 40%. The examples above make it clear: India has the tools, but lacks the political will.

### **7. The Economics of Tax Reform — Possible Losses and Inconsistencies**

The central government's reduction of excise duty on petrol and diesel in March 2026 is estimated to cause a revenue loss of approximately ₹1 lakh crore in FY27. It is within this very budgetary pressure that SAED and RIC were raised again in April 2026. The question is: is it appropriate to bridge this deficit at the expense of farmers? Ministers who write letters recommending reductions in VAT on ATF for the aviation sector — why do they not write even a single letter to reduce the burden on farmers' diesel? Even with 25% VAT on ATF in Delhi, central ministers request states like Uttar Pradesh to keep VAT at 1%; yet not a single letter is written to reduce the 21% VAT on farmers' diesel. This is not merely neglect — it is a deliberate, selective sympathy.

*State governments may resist lowering VAT on diesel because it affects their revenues. A solution exists: the central government can compensate states for the loss, exactly as it does for the GST revenue shortfall. If the centre can write letters to reduce ATF VAT, it can also offer a compensation formula for agricultural diesel.*

### **8. Three Firm Demands**

**First Demand:** Zero tax on tractor diesel. By implementing a 'Red Diesel' or tax credit system as in Europe, Canada, and Australia, farmers should receive a refund of the excise duty paid on diesel purchases.

**Second Demand:** End the practice of classifying tractors as luxury cars. Parliament should give tractors a legal classification as 'agricultural implements,' creating an independent category separate from all motor vehicle tax frameworks.

**Third Demand:** Abolish all outdated surcharges. Exempt agricultural diesel from the expressway cess, since tractors do not use highways. Provide transparent accounting of the Agriculture Infrastructure Development Cess (AIDC) revenue. Abolish the National Calamity Contingent Duty (NCCD) after 25 years. Also, the central government should write letters to states requesting them to reduce VAT on agricultural diesel to 1–4%, as is done for aviation fuel.

### **9. What This Means for the Labouring Farmer**

Understand this at a human level — the wheat farmer in Punjab, the sugarcane and cotton grower in Maharashtra, the sugarcane producer in western Uttar Pradesh, the groundnut farmer in Rajkot, the paddy farmer in Andhra Pradesh. For each of these, the tractor is a part of the farm itself. Many hire tractors on rent for tilling and planting. Crucial operations in sugarcane harvesting and transportation are carried out by tractors.

Broadly speaking, for a small landholding farmer, fuel expenses constitute 12–18% of total cultivation costs. On a 2-hectare farm, the cost per acre per crop season is ₹8,000 to ₹15,000. If

these taxes are waived, every farming family will save ₹4,000 to ₹5,000 annually — without any intermediary, without any form.

The unjust tax on diesel is a silent but daily form of exploitation.

#### **10. The First Citizen Must Receive First Priority**

Agriculture's share in India's GDP is approximately 18%, and the agricultural sector employs approximately 26 crore people. According to the FAO, approximately 50% (that is, about 70 crore) of India's population cannot afford a nutritious diet. In such a situation, the annual diesel tax burden per tractor is ₹50,000 to ₹56,000. The farmer is India's food provider, yet in the fiscal structure, he is the last to be protected. The government that allocates budget provisions in the name of 'public interest' for airline companies — is food production not a public interest? Is the tractor not a tool that contributes to GDP? The demands are clear, the data is unambiguous, and the international precedents are concrete. The time to decide is now.

In an agrarian country, the farmer is the first citizen of India — then prove it at the petrol pump.

**Sources:** Petroleum Planning and Analysis Cell (PPAC); Economic Times; Federation of Automobile Dealers Association (FADA); Business Standard; Moneycontrol; CNBC TV18; Central Board of Indirect Taxes and Customs; Australian Taxation Office; Global Energy Reports.

**All figures are in Indian Rupees.**

*(Note: Tax rates are subject to regular revision. Readers should understand this information as of the status on 26 April 2026. The tractor sales figure will be updated as per FADA's available reports.)*

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