

лової доданої вартості, енергетична насиченість витрат населення на харчування. Критеріями оцінки сучасної аграрної політики

рекомендуються такі ознаки, як дієвість, життєздатність, результативність і ефективність задекларованих цілей та пріоритетів.

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*K.P. PROSKURA, Ph.D., Associate Professor,
Department of Finance and Credit,
Kyiv Economic Institute of Management*

Agricultural Sector Taxation: development and risks

Scientific problem. The system of agricultural taxation in Ukraine is based on the fixed agricultural tax (hereinafter - FAT), accrual basis of which is a cost of a unit of an agricultural land (arable land, meadows, pastures and perennial crops), or lands of water fund (inland waters, lakes, ponds, reservoirs) owned by agricultural producers or given to

him for use, including for hire (1 ha). Moreover, the cost used in calculating was established in 1995 and since then it has not been being reviewed. As in Ukraine the land is not a subject to sale, and the agricultural land market in Ukraine does not exist, it is difficult to determine the current fair value, and the current rating is only declarative in nature [7]. The tax rate during the use of FAT has not been being changed and is now not more than 1 % of

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the land cost established in 1996. Since the tax is fixed, its indexation for this period of time had not taken place, and hence the value of annual revenue in recent years varied slightly within 120-150 million UAH. The areas used in the agricultural sector in Ukraine are within 25-30 million hectares, which means that for 1 ha about 4-6 UAH of fixed agricultural tax is paid. As the national currency is subject of inflation processes, then 5 UAH in 2012 are equivalent to about 1 UAH in 1996 (the exchange rate of hryvnia grew over this period from 1.8 UAH / USD up to 8 UAH / USD).

Besides the fixed agricultural tax, agricultural enterprises pay also social security contributions in the form of charges on the payroll and the payment under the contract of civil law nature (a single social contribution). It should be noted that the amount of income tax is not considered as a part of the tax burden of the agricultural enterprise, since its actual taxpayers are individuals - employees of the company. As for VAT, this tax is calculated according to the rules established by the five section of the Tax Code and remains available to the producers of agricultural products (the condition to apply this regime of the VAT is the share of agricultural products in the total volume of production, not less than 75 %). This privilege is widely used by large agricultural enterprises for tax evasion, for example by processing plants. For instance, the enterprise, which has 50 000 hectares of arable land, with an average volume of production of 3 000 UAH / ha is able to provide preferential regime of taxation (VAT conservation, land tax and no income tax) for any activity of production orientation with annual sales up to 50 million UAH.

Analysis of recent researches and publications. In the recent years, the situation of foreign economic activity of domestic enterprises in the rural sector has been changing significantly. To replace traditionally export-oriented sectors of the Ukrainian economy (steel, fertilizers, machinery, etc.) comes the agricultural production, which is characterized with stable demand on the world food market. At the same time it's necessary to keep in mind that the state budget annually spends a significant amount for agricultural production

support, despite the extremely difficult financial situation in the public sector. Thus, we have as positive results of agricultural enterprises' activity and a significant loss of budget funds for their support, which significantly reduces the efficiency of the agricultural sector of the economy. The planned budget deficit figure for 2013 is 50 billion UAH. However, given the depressed state of the economy, this figure is likely to be exceeded [3]. The Ministry of Revenue and Duties of Ukraine seeks for possible options to increase revenues [6]. Therefore, the research of issues regarding possible options of changes in the current system of agricultural taxation and assessment of potential social, economic and financial risks as a consequence of such action is actual. Existing proposals can be summarized in the following basic options: to transfer the agricultural sector to the regular tax system [5], to introduce a separate tax regime for Agroholding [7], to remain the current agricultural taxation.

The objective of the article of the paper is to develop proposals for changing regimes of the taxation of enterprises of Ukrainian agricultural sector, which would give sufficient fiscal effect and would provide the change the balance of financial relationships between the budget and the agricultural sector. As additional features to assess the acceptability of the proposed changes, there may be used the terms of conservation of the current rate of development and investment attractiveness of the agricultural sector.

Statement of the main results of the study. As it is apparent that the existing regimes of taxation of the agricultural enterprises are inefficient and discriminatory against other taxpayers, it is necessary to differentiate the tax burden for different agricultural enterprises: to remain it unchanged for small firms and to increase it for large Agroholdings. Without denying the existing views of scholars, we offer several options for changing the current system of taxation of agricultural sector.

One option is to introduce instead of FAT and VAT the sales tax, widespread in some countries, for example, with the tax rate of 3 % from the net income of the agricultural enterprise. The advantage of the sales tax is the

simplicity of its administration and the inability of minimization. It is believed that this approach is fiscal in nature, but it is technically no more burdensome than the VAT.

Another option is to use an analog of the current tax on the non-agricultural land use (land tax). The advantage of this approach is that the value of land is subject to indexation in each report period. Thus, tax revenues will

grow adequately to inflation processes. It's possible also to consider the option when the tax base is also a unit of area, provided that the tax rate is differentiated according to the location of the parcel. In addition, the tax is indexed according to the Consumer market price index [9]. Dynamics of the revenue from the land tax and FAT are shown in Fig. 1.

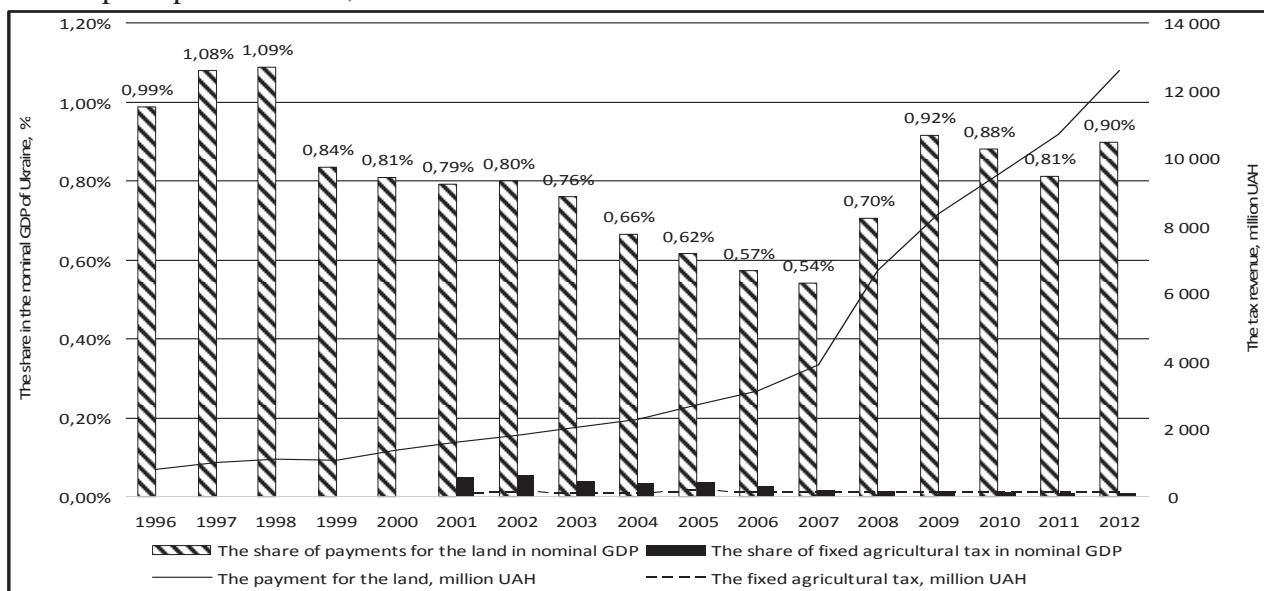


Figure 1. Revenues dynamics of and fiscal efficiency rate of land tax and the fixed agricultural tax

Firstly, it draws attention to the stable nature of the growth of the payments for the land. The indicator of fiscal efficiency (share of GDP [10,11]) of the payments for the land varies in the limits of 0.5 to 1.1%. Moreover the anti-cyclical nature of the tax is shown: during the economic boom (2003-2007) the share of taxes in GDP decreased, but during the crisis (2008-2009) it grew. This, in our opinion, is an evidence of the validity of the definition of the tax base and the efficiency of the tax administration.

As for FAT, its fiscal efficiency until 2013 did not exceed 0.01% of GDP, while the value of revenues, most likely did not cover its administration cost [10]. It is possible that at the stage of market economy forming, the virtual absence of taxation contributed to capital inflows in the agricultural sector. After 2000 a rapid growth began in the crop industry, which provided not only the domestic demand for grain, but also allowed the country to enter the top ten leading exporters of grain

production. However, the expectation that the tax burden's decrease will lead to increasing the level of employment in the agricultural sector did not materialize. [2] In rural areas, with a relatively stable number of residents the level of employment decrease [12;15]. Summarizing the above we can draw the following conclusions:

Current agricultural taxation results

1) the current system of taxation of agricultural enterprises has zero or negative fiscal effect (administration costs exceed revenues) and degrade the overall efficiency of the tax system of Ukraine;

2) due to almost zero tax burden the system does not allow to stimulate the development of innovative industries in the agricultural sector;

3) the current system, in the presence of powerful agricultural enterprises with significant volumes of production, allows tax evasion for of companies that are not manufacturers of agricultural products;

4) the current system of VAT payment increases the scale effect in the agricultural sector, which doesn't facilitate the development of mini, micro and medium enterprises in rural areas;

5) focusing only on one type of resources (land) allows almost completely avoid taxation agricultural products producers, that do not use this resource (for example, animal farms, poultry or hothouse).

If FAT accrued similarly to the land tax (inflation-adjusted) the growth rate of revenues from the tax would correspond to an average rate of inflation (12.1% per year) of the studied period (Fig. 2). However, the fiscal efficiency

(share of revenues in GDP) all the same would be reduced due to the existence of real GDP growth. In our view, this approach also has another significant disadvantage because it does not take into account an economic efficiency of a producer of agricultural products which is not necessarily based on land resources [7]. For example, there are potent agrarian enterprises which are taxpayers of FAT with small plots of arable land, or even without it (poultry, greenhouse complexes, pig farms, Greenhouse business, etc.[8]). Figure 2 regards the possible tax revenues from FAT in conditions of its indexation.

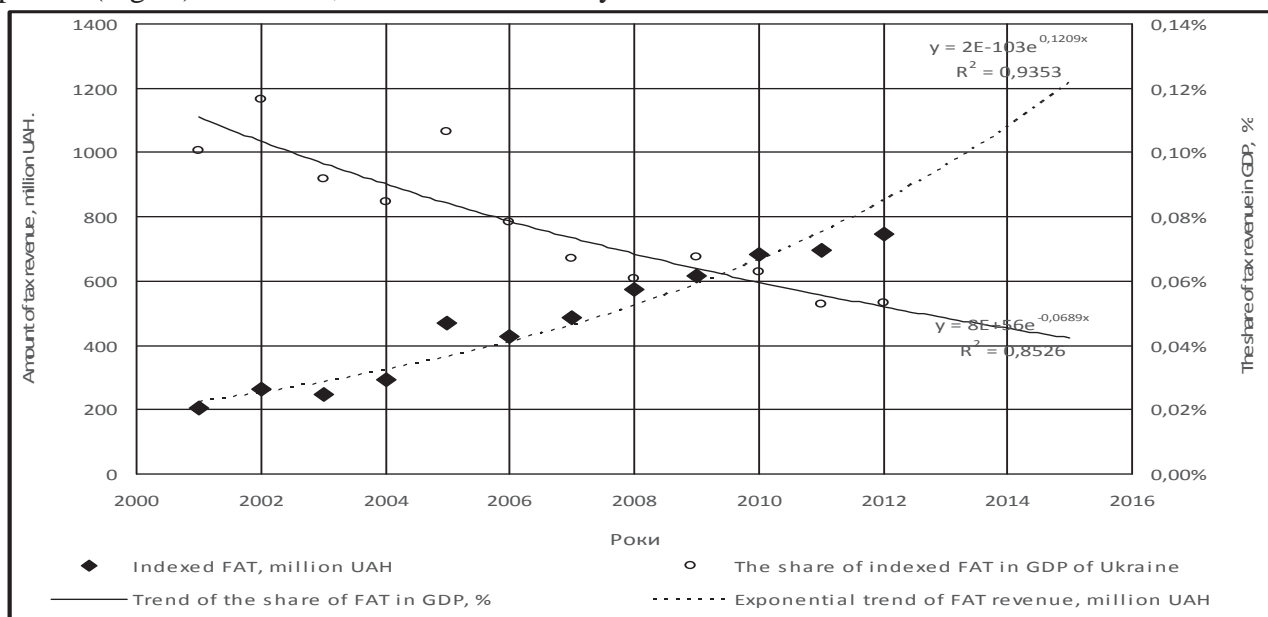


Figure 2. Potential tax revenue from FAT, subject to its indexation

If to follow the recommendations of the Institute of Agricultural Economics and to base on the latest average normative monetary evaluation of agricultural land, which is as of 01/01/2013 is 20 982 USD / ha, the further growth of revenue from FAT will correspond the trend shown in Fig. 2 provided that the inflation rates and the amount of land cultivated would be kept. However, in spite of the attractiveness of this option, it should be shown its flaws: the normative monetary evaluation of 1 ha is set administratively and does not meet the monetary evaluation, based on the discounted cash flow, where as an income the rental income is used. Thus, the current rent is 50 USD per 1 ha [8;15], if to regard as a discount rate the rate on foreign currency deposits - 10 %, then the discounted cash flow

on an infinite time horizon (valuation of 1 ha cost) is 500 USD. This is significantly lower than the established monetary value. Therefore, without the existence of agricultural land market it is difficult to be based on the administratively determined monetary valuation. In addition, outside of taxation there are powerful agricultural enterprises who do not have farmland. Projected figure of income in 2015 from the tax, based on the estimated value of land of 20.982 UAH / ha on 01/01/2013[7] and is valid for rules similar to land tax is 1.2 billion UAH. However, it's necessary to keep in mind that inflation (the official rate) in recent years has significantly decreased and that's why the amount may be considerably lower. Of course, 1.2 billion UAH revenue in 2015, taken as a result of the

transition to the first option, it is much better than 140 million UAH from the current FAT, but they are also not enough for annual support of the agricultural sector. As for the social needs of rural areas, there is need of revenues of another order.

Let's consider yet several options for taxation of agricultural enterprises:

- the sales tax at the rate of 3%;
- introduction 7% rate of VAT;
- transfert to the regular tax system;
- to remain the current system of taxation.

As for the sales tax, it is proposed to taxate all agricultural enterprises regardless of resource potential (squares processed, fixed assets, volume of labor) with the tax rate of 3%. In Fig. 3 there's shown the assess of annual potential revenues from taxation the sales of agricultural enterprises at a rate of 3% on the data of the State Statistics Committee. They are

adequately represented by the model of exponential trend and show a steady increase in production in the agricultural sector at a rate of 14.7% per year. If to implement this tax from 2015, in this year it will provide the revenue of around 7.5 billion UAH. Among the proposed options there are a few that deserve attention. It is, first of all, the introduction of 7% VAT rate [13], or transition to the regular tax system (payment of an income tax on the common basis) for large enterprises (Agroholding). The disadvantage of the first option (7% VAT rate) is quite possible situation, when the tax credit paid by applying the regular tax system (fuel, gerbecids, fertilizers and so on) will exceed 7 % of the premium to the cost obtained from the end user, and then there will be an extremely painful for budget issue of refunding. Therefore, this option is laden, with very large budget risks.

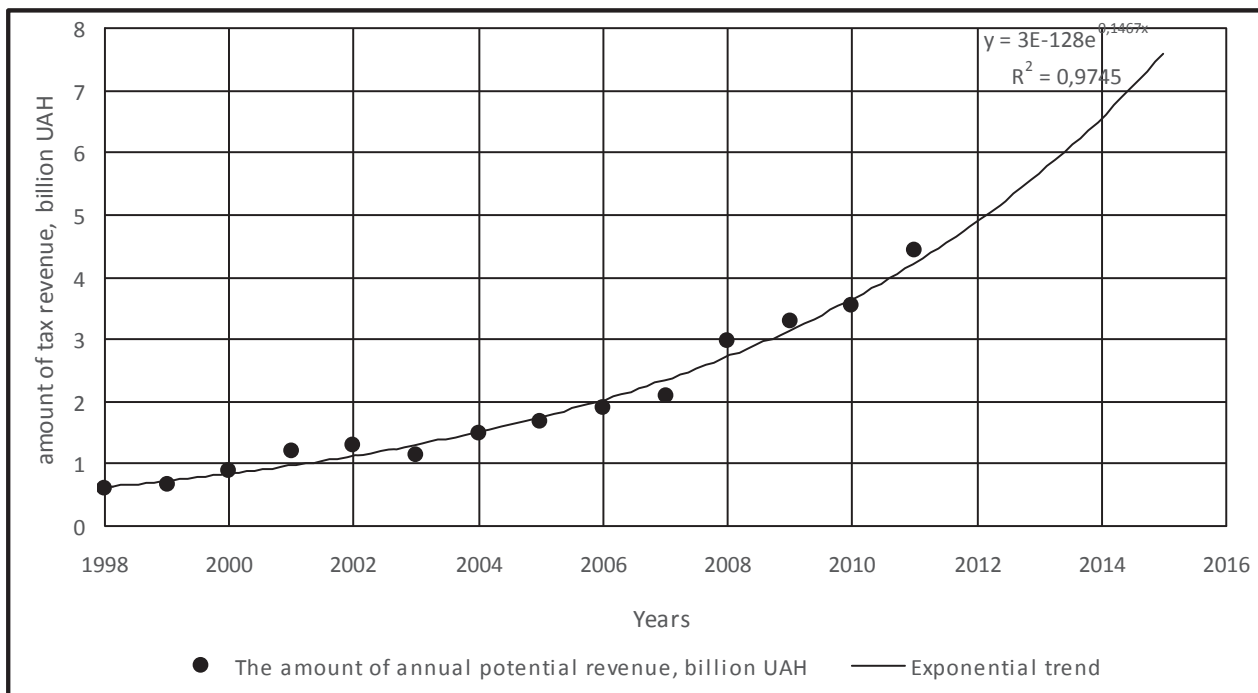


Figure 3. The scatterplot and the exponential trend of potential revenue in nominal prices from agricultural enterprises sales taxation

As for the transition to the regular tax system for large integrated agricultural enterprises (agricultural holdings), than in this case there is a significant probability of their disintegration down to the established limits that do not fall under the category of agricultural holdings. In addition, the introduction of the income tax can contribute to the massive shadow of the agricultural sector of

Ukraine and, as a result, the industries that use agricultural products as raw materials. The data of the State Statistics Committee allows to assess the expected level of revenues in 2015 from income tax, provided that all agrarian entities will have to pay this tax. The expected size of the revenues is approximately 6.7 billion UAH. If Agroholdings' contribution to total output is about 20%, the projected rate of

revenue is 1.7 billion UAH plus about 1 billion UAH from the companies that will pay land tax. The following table (Table 1) contains the

main features and risks of some options of the agricultural enterprises taxation implementing.

The main expected rates* and risks of agricultural taxation regime changes

<i>Tax</i>	<i>Base of taxation (rate)</i>	<i>Expected revenues in 2015 (95% confidence intervals)</i>	<i>Risks of implementation</i>
<i>Analog of land tax</i>	<i>The product of the cultivated area and indexed standard monetary evaluation (the rate of 0.5-1%)</i>	1.2 billion UAH (0,8 - 1,4 bln. UAH)	1) potent producers without cultivated areas are not a subject of taxation. 2) Tax evasion of non-agricultural enterprises
<i>Sales tax</i>	<i>Annual gross income (the rate of 3%)</i>	7.5 billion UAH (5.10-9 billion UAH)	1) The food prices increase.
<i>Special VAT regime</i>	<i>Value added (rate of 7%)</i>	3 billion UAH (1.0-4.0 bln. UAH)	The increase in level of VAT refunds, the growth of budget risks
<i>Regule taxation system for large plus a payment for the land for others</i>	<i>Profits of large enterprises & land cost (rate of 19% on income and 0.5-0.7% of indexed value of the land)</i>	2.7 billion UAH (0.8-3 bln. UAH)	Shadowing of income of large enterprises, deintegration and decrease of the efficiency of large enterprises
<i>Remaining the FAT</i>	<i>The product of the cultivated area on the normative monetary evaluation of 1998, rate of 0.5-0.7%</i>	120-150 mln.	Continuing the existing trends, the further decline of small businesses in rural areas

* An expected value of revenues should not be taken as a mathematical expectation estimate, but rather as a value that is built on the basis of rational expectations.

Of course, Table does not give a complete picture of all possible consequences of changes in the taxation of the agricultural sector. Issues of infrastructure development and reducing inequality of income levels in the city and in the countryside are left beyond researches. Rising of income levels of population can be achieved if the supply of labor in rural areas would not have a pronounced monopolistic nature for each of the locations, so proposals presented in [4] to limit with 35 % the share of acreage under lease by one company in one administrative district are noteworthy. However, the actual current market of labor supply will be created only if a modern infrastructure of small business, which in modern terms first of all are the lines of communications and fast internet. Another question that also remains unresolved is the change of distribution of budget costs for any purposes accordingly in favor of the place of their actual receipt, rather than the place of registration of the taxpayer [1]. Generally, summarizing and analyzing in terms of social utility the options, the taxation of the agricultural enterprises' income at a rate not exceeding 3 % is the best option to be implemented. The main risk in this case is in some price increases throughout the sequence of production and resale of food products that will have elements of the cascading effect, however, the risks of other options is significantly larger. In addition, this option would taxate the

industries that are able to pay taxes (such as poultry, sales volume of which is 20 billion UAH in 2012).

As for the risks inherent in the agricultural sector (weather, price, etc.), and the inability of agricultural enterprises to perform their own tax liability due to loss of income, caused by these risks, the issue can be resolved by determining the weather and market conditions belonging to the normal type. Then the conditions that go beyond these limits can be carried to extreme ones, and it will be the basis for agricultural enterprises to apply for the transfer of tax liabilities for the next tax periods.

Conclusions. During the formation of the agricultural sector taxation in the 1990's the same mistakes were made as for the economy as a whole: the tax system was introduced close to the systems of developed countries, without regard to the degree of the market transformation. This led to the decline of the agricultural sector, the debts growth to budget. At this time the role of households, which carried the main burden of food security of the urban population has significantly increased. The transition to FAT and implementation of the existing order of VAT payment contributed capital inflows in the agricultural sector and the creation of agricultural enterprises, the most successful of which effectively use the scale effect to intensify an agricultural production. As a result, a regional monopoly system of

agricultural production formed that is significantly different from the agricultural systems of the EU countries, including the level of the tax burden. This development hinders the possibility of developing small and medium enterprises in the agricultural sector. Unequal economic conditions and lack of condition for small and medium business development exacerbate social tensions in the countryside. The development of alternative options of the taxation, which would reduce the impact of scale effect on the competitive capabilities of various categories of agricultural producers, is an extremely urgent task. Moreover the existence of a consistently high level of revenue from the agricultural sector would make it possible to stabilize the support of small and medium forms of business, including farms. In our view, the proposed options of Changes in the tax regimes of agricultural enterprises should be analyzed in terms of social utility functions and meet the following requirements:

- not to inhibit the tempo of output growth of the agricultural sector;- to meet the criteria

of effective administration, and not to impair this figure for the whole tax system of the country;

- to promote positive social shifts in the agricultural sector (growth of the employment rate and incomes of the rural population);

to improve the current system efficiency parameter;

to shift monetary balance between state and agriculturer to positive value

Sure, each of the proposed options is burdened with significant risk, so it's necessary to get quantitative measures of economic, fiscal, inflation, social and other risks, the implementation of which becomes possible when the changes to the taxation of the agricultural sector are implemented. Moreover it's necessary to consider these proposals from the standpoint of Pareto-efficiency (impact on the utility function by an urban and rural inhabitant) or with an utilitarian approach to evaluate the impact on the function of social utility.

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