

TAXATION FEATURES OF AGRICULTURAL PRODUCERS

In the context of the deteriorating a geopolitical situation in the world, as well as conducting an import substitution policy in Ukraine, the development of agriculture as a strategic sector of the economy is the top priority of the state policy. It meets the requirements of population needs for food, provision of industry with agricultural raw materials and food security. All this leads to the necessity to strengthen state support for agricultural producers who are not fully cope with provision of domestic needs, lagging behind in terms of innovation development and foreign investment attractiveness. The support of agricultural producers becomes more important both due to the provision of the trust funds and the development of the tax system. Now the latter does not fully take into account the specificity of agricultural production, dependency on climatic conditions, soil fertility, seasonality of production, etc. All this leads to the necessity to conduct an analysis of the current system of taxation in the agricultural sector of Ukraine's economy, the assessment of its efficiency and impact on the level of agricultural producers.

Tax regulations in the agricultural sector is a natural process, regulated by laws and regulations of regional and municipal authorities, carried out by the state in terms of tax policy. Its aim is to provide tax revenue and at the same time to stimulate innovative and investment activities of agricultural enterprises through redistribution of the profits of business subjects, as well as provision of the changes in the level of tax burden according to the pace of the national economy.

On the contrary, the interests of taxpayers are to minimize costs, including and the cost of paying taxes, that is why the tax liberalization by decreasing the tax burden objectively helps to strengthen the financial situation of taxpayers, to saturate the markets in goods and services and to create a competitive environment. The labour costs are also increasing that enhances the welfare of employees and their consumption. This stimulates

the expansion of aggregate demand, which is the most important factor in sustainable economic development [1, p. 6].

The functioning of the agricultural sector as a system deals with the existence of the following specific features: the dependency of production on climatic conditions, seasonality and uneven flow of financial resources during the calendar year, the use of land as an object and means of labour, higher level of agricultural producers' credit, specific of formation of production costs and so on. The discovered features have a significant impact on the functioning of agricultural enterprises and determine a specific mode of taxation.

Due to the results of the implementation of agricultural activity for the last reporting (tax) period of stay on a special regime, the negative difference between tax liability and the tax credit were declared by farmers, such amount of tax is transferred from a VAT return represented for the last reporting (tax) period of stay on a special tax regime to a VAT return for the first reporting period of 2017 (January 2017 / first quarter of 2017).

The dependency of production on climatic conditions is the root cause of high probability of getting loss and it is necessary to use the deferred tax payments in the process of financial and business activity, as well as to expand the list of grounds for granting investment tax credit, changes in rates and terms of loans.

The seasonality of agricultural production, the uneven flow of financial resources during the calendar year and often their complete absence until the end of the tax period lead to untimely tax obligations fulfilment, penalties and fines accrue, tax arrears increase, as well as they require the determination of possibilities of postponement of tax income, personal income tax, single tax at the end of the calendar year.

Last century modern tools of fiscal regulation system of agriculture were formed as an integral component of the state support of subjects of agro-industrial production in conditions of the reformation changes in the industry.

The establishment of fixed agricultural tax, a special tax regime to VAT of agricultural enterprises from 1999 to 2015, as well as agrarian countervailing measures (by the representatives of small businesses) working on a simplified system of taxation may be included to the system of tax incentives for the agricultural sector.

The application of the above-mentioned instruments of state regulation helped to reduce the tax burden on farmers and thus create conditions for the development and intensification of their activities. The state regulation of the agricultural sector through tax measures are represented in Table 1.

Table 1

**Comparative Characteristics of Special VAT Regime until 2016
and from 2016 to 2017 [2, p. 25]**

| <p align="center"><i>Special VAT tax regime according to the old regulation (its activity was terminated on 01.01.2016)</i></p> | <p align="center"><i>Special VAT tax regime according to the new regulation (its action came into force from 01.01.2016 to 01.01.2017)</i></p> |
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| <p>Businesses supplying dairy and meat products of own production, wool of own production, as well as dairy products and meat products corresponded to this regulation: a) accumulation regime of VAT sums;</p> <p>1) VAT that should be paid to the budget concerning transactions for the sale of agricultural goods / services of own production, except for transactions for the sale of milk and meat to processing enterprises.</p> <p>These funds are available to agricultural producers and are used for the purchase of capital goods; the order of use of VAT has changed since 2004 – first funds are used to refund VAT sums paid in the price of production factors, and if there is a balance of such amount of tax for other factors of production, this regulation based on the Tax Code (Article 209);</p> <p>2) VAT that should be paid to the budget by agricultural enterprises for the sold milk, livestock, poultry, wool, domestic production, as well as dairy products and meat products produced in its own processing shops remained completely at the disposal of agricultural enterprises and was directed at supporting own livestock production; this regulation has concerned only to agricultural enterprises since 2009, that have not chosen a special tax regime activity in agriculture, forestry and fisheries. This regulation has been extended (Article 209.18) when the Tax Code 3 came into force;</p> <p>b) VAT at the zero rate concerning sales of milk and meat in live weight by agricultural producers of all forms of ownership and management to processing enterprises (cancelled according to the Law N 639-YI dated from 31.10.2008).</p> | <p>Law No. 909 introduced amendments to point 209.2 of Article 209 of the Code, according to which within the special tax regime partial payment of VAT sums and the special accounts have been introduced to the budget in 2016. The amount of VAT payable to the budget and transferred to special accounts, depends on the type of sold agricultural products. Thus, the positive difference between the amount of tax liabilities of the reporting (tax) period and the amount of the tax credit for the reporting (tax) period is defined by:</p> <p>1) transactions with grain crops in 15% are directed to special accounts of agricultural enterprises, but in 85% it is directed to the state budget;</p> <p>2) transactions with meat products in 80% are directed to the special accounts of agricultural enterprises, but in 20% it is directed to the budget;</p> <p>3) transactions with agricultural products / services, except for grain and technical crops and livestock products (hereinafter – other agricultural products / services) such distribution is 50/50 within activities of the special tax regime.</p> <p>To ensure these payments to the budget and to transfer the funds to special accounts to agricultural enterprises subjects of special tax regime by Treasury extra e-accounts were created to which funds are transferred in accordance with the above-mentioned interest.</p> |

The introduction of special tax regimes played a positive role in the development of domestic production. First of all, the positive trend in agricultural production was renewed. Not only low onerous tax rates should be distinguished among the main advantages of the use of special regimes of taxation for agriculture, but also the ease of tax administration, minimization of subjective factors in the organization of the tax process.

In recent years, agriculture is the leading budget-sector, which provides GDP growth and inflow of foreign currency into the country. According to the State Statistics Service, Ukraine exported agricultural products in 11.8 bln. USD., that is 40.7% of the national exports from January to October of 2016. Export potential is ensured by the growth of crop production. According to aggregated data, the harvest of grain and leguminous crops in a test weight was 64.2 mln. tons in 2016, i.e. it was 4 mln. tons more than in 2015. But the harvest should be 44.8 c/ha (it is more at 3.7 c/ha than in 2015). This negative trend only amplifies in livestock: in comparison to last year the reduction of the number of cows was 3.9%, pigs – 5.5%, sheep and goats – 2.9%, poultry – 4.1% [3].

It has been formally annexed to the simplified system of taxation, accounting and reporting in the form of single tax payers of the fourth group according to the law “On Amendments to the Tax Code of Ukraine and some other legislative acts of Ukraine concerning tax reform” [4] since 2015. Single tax payers of the fourth group were also exempt from the duty on calculation, payment and tax filing of the corporate income tax, property tax (in terms of land tax, except for land tax for land that are not used for agricultural commodity of production) and rental fee for special use of water. In comparison to the fixed agricultural tax only land was allocated to taxation. The rights for their use were registered according to the land legislation. The taxation base was also changed. If the fixed tax is determined based on the regulatory and monetary value of land as of January 1, 1995, the regulatory and monetary value as of January 1 of the reporting year based on indexing was used for the calculation of the single tax. As a result, the tax base has increased seven times [5].

The rates of single tax payers of the fourth group were increased at 3 times higher in comparison to the fixed agricultural tax. It was 0.45% (for mountain and forest areas –

0.27%) for arable land, hayfields and pastures, 0,27% (for mountain and forest areas – 0.09%) for perennial crops, 1.35% for land and water fund and 3% for closed ground.

Thus, the tax burden for agricultural enterprises increased at 21 times. The recent changes in 2016 regarding the single tax for agricultural enterprises dealt with regular increasing of rates. It was 0.81% (for mountain and forest areas – 0,49%) for arable land, hayfields and pastures rate, 0,49% (for mountain and forest areas – 0.16%) for perennial crops, 2.43% for land and water fund and 5.4% for closed ground. Thus, the tax rate for this tax to agricultural producers has increased at 1.8 times in comparison to 2015 [6].

In exchange, the government proposed the allocation of subsidies based on submitted documents to the supervisory authority, which automatically leads to corruption by officials of the Fiscal Service. While the moratorium on the introduction of penalties and fines is determined for agricultural enterprises that used special VAT tax regime for understatement of VAT payers' liabilities or under their budgetary compensation arising from the breach of the distribution of the tax credit for the reporting (tax) periods from 01.01.2016 to 01.01.2017.

The procedure of taxation influences economic processes both at the macro- and microeconomic levels. Tax policy of the country concerning agricultural production shall deal with two tasks: to optimize the level of taxation in order to stimulate business development and to provide income to the budget from the enterprises of the agricultural sector.

The Article 209 of the Tax Code of Ukraine has repealed since January 1, 2017. It regulates the conditions for the application of special tax activities in agriculture and forestry, as well as in fisheries. At the same time, the Law of Ukraine on December 20, 2016 “On Amendments to the Tax Code of Ukraine and laws of Ukraine to ensure the balance of revenue in 2017” comes into force on January 1, 2017. It introduced a number of amendments to the Tax Code of Ukraine regarding the settlement specific issues related to the cancellation of a special regime. Thus, taking into account the above-mentioned changes, the following things are expected, such as [7]:

- cancellation of registration of subjects of special regime and their transfer to common system of taxation;

- closing the accounts in the system of electronic tax administration, which were additionally opened by agricultural producers;
- limitation of the registration tax bills stacked by agricultural producers for transactions on supply of agricultural products / services in terms of the special regime;
- transfer of the negative value of the difference between tax liabilities and tax credit, formed as a result of agricultural activities, to the VAT tax return, according to which the calculations of the budget are made;
- provision of budget subsidies to agricultural producers listed in the Register of recipients of budget subsidies according to the Law of Ukraine “On State Support of Agriculture of Ukraine”;
- since January 1, 2018 allocation of budget subsidies will be in an amount not more than 150 mln. UAH per year per one agricultural producer based on persons who are connected with such producer;
- addition of function of regulatory bodies in the formation and maintenance of the Register of recipients of budget subsidies for agricultural producers.

At the same time, a minimum limit of the land tax for agricultural land has been set at least 0.3 % of the regulatory and monetary value.

Reform of the special VAT tax regime according to international obligations, including the Association Agreement between Ukraine and the EU, envisages cooperation and application of the principles of good governance in the tax, especially the principles of transparency, exchange of information, fair tax competition, increasing of tax revenues and tax control, arrears avoidance, provision of efficient tax collection and strengthening the fight against tax fraud.

Today tax policy of most countries, unlike the Ukrainian, aims at facilitating administration, simplifying and lowering tax rates. For example, in Poland taxes were reduced from 19% to 15% for entrepreneurs, whose income does not exceed 1.2 mln. euros per year. It will boost the economy and help business entities to grow. The second example is Romania, because it is even more indicative for Ukraine. VAT rate was reduced at 4% in Romania in 2015, as well as the rate of income tax, the “special construction” tax was abolished. Thus, in the first quarter of 2016 the Romanian economy

grew at 4.3% in comparison to the first quarter of 2015 and at 1.6% in comparison to the fourth quarter of 2015. Due to this solution Romania became the second EU country after Ireland in terms of GDP growth.

However, in our opinion, change of special VAT tax regime for agricultural enterprises led not only to a significant reduction of state support of agricultural enterprises, but also to a significant complication of tax administration and inability to clear division of tax credits between the three areas of agricultural production: due to the transactions with grain and industrial crops, with livestock production and other transactions.

Ukrainian scientist O.M. Mohylnyi gave his opinion concerning the negative side of simplified tax system as a single tax for agrarians, saying the following: “A tax does not include production costs and level of profitability of agricultural producers; calculation of tax rates is implemented based on the imperfect monetary value through undeveloped land market; it puts tax payers who have different gross production value of crop and livestock production in the unequal conditions; not all included taxes in its composition depend on the size of agricultural land, that is why the principles of justice are being violated” [8, p. 125].

High level of credit and loss of agricultural producers is causing preferential taxation procedure. However, in spite of the existing benefits, lack of financial resources, original structure of production costs, high capital intensity industry and low turnover rate of capital make the agricultural sector less attractive for investment in comparison to other areas of the economy. That is why, it is necessary to integrate agricultural enterprises into cluster structure with stated tax holidays concerning above-mentioned taxes.

The specifics of formation of the cost of production determines the choice of optimal regime of agricultural commodity of production. At the same time, in order to maintain agricultural land in fertile and clean conditions the measures for tax incentives for production and consumption of alternative energy sources from renewable raw materials are to be offered instead of introducing additional environmental taxes and fees. A change in tax policy approaches of tax incentives exporter is observed among the ways of reduction of the severity of the problem of VAT reimbursement for agricultural

exporters and increasing of fiscal efficiency. Imposition of VAT zero rate of exports of all products is considered to be impractical because it contributes to the preservation of the existing structure, and thus the extensive model of economic growth. Moreover, it has negative impact on the efficiency of fiscal tax.

Therefore, there is an urgent transition to differentiated export incentives policy that would facilitate progressive changes in its structure and the structure of national production as a whole. Taking into account this aim, it would be useful to keep a zero VAT rate for export goods with high VAT and exempt other production from export tax. It would mean classifying the tax paid in the price of material resources in production costs and would allow to abandon the VAT refund to exporters of products with low VAT [9, p. 45].

Besides, it is necessary to establish a procedure for collecting VAT on the actual implementation of FDI in which the right to VAT refund arises from the registration of a tax payer. It should be the responsibility for untimely reimbursement of VAT by the state in the form of penalties (fines).

Thus, the amendments represented in the Tax Code is closely related to the budget of the country and it is its foundation, forming a part of the expenditure of the main financial document of the state. At a time when tax reduction is complicated by significant needs of budget revenues, in the first stage of tax changes the focus should be on components reducing the transaction costs of agricultural business concerning tax payment without affecting their own financial means. In particular, they are represented with expenses for accounting and reporting, service of tax audits, training of accountants of agricultural enterprises or use of third-party accountant (for small businesses) and so on. To solve these problems is ensured by the improvement of procedures and introduction of modern information technology. The content of the tax changes for agricultural producers should be represented with moderate attitude towards reduction of taxes, introduction of efficient taxation mechanism in which taxes, serving as a source of fiscal resources should properly fulfil socio-levelling, regulatory and catalytic functions.

Evolution of fixed agricultural tax and later evolution of tax for the fourth single group indicate the following: this tax gradually lost its regulatory function, while changes

in taxation strengthened its fiscal value. The noticeable increase in the tax burden concerning agricultural enterprises is the result not only of government's desire to increase the level of budget revenues, but also the fact that the tax rates and base were not reviewed and they were not brought into conformity with current economic conditions for a long period of time.

The gradual withdrawal of extra budgetary contributions from the FAT to trust funds was also a factor in increasing fiscal pressure, perhaps even more dramatically than the change in the tax base and rates. Due to the burden growth and a difficult economic situation in Ukraine, the topic is the dilemma concerning optimal tax level and structure for agriculture, which is one of the few sectors demonstrating about positive growth dynamics.

The increasing of the tax burden without adequate indulgence in other aspects of agricultural enterprises could lead to a slowdown of the industry. On the other hand, tax preferences for agricultural lead to the tax burden on other taxpayers, which also discourages the economic growth. The analytical basis for resolving the issue is adequate assessment of the real tax burden that was formed in the agricultural sector today, as well as the comparison of values with international counterparts.

Thus, today the tax measures introduced by the government is very controversial for the further development of the agricultural sector. The agricultural producers for export of grain and oil products have been deprived of funds in the form of VAT refund for these operations since 2015. At the same time, it increased by 25% tax rate for the lease of agricultural land. The accumulation of VAT measures that led to reduction has been reduced since 2016. At the same time, tax rate increased at three times. Therefore, it is necessary to apply the tools of state regulation of the agricultural sector which would promote and enhance the development of the agricultural business.

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