

Tax Regulation of Activity of Agricultural Commodity Producers in Ukraine

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Abstract

The article is devoted to the generalization of theoretical and practical aspects of tax regulation and grounding the proposals of developing an effective mechanism for tax stimulation of agricultural commodity producers in Ukraine. The influence of agribusiness tax regulations on activity of agricultural producers is considered; the influence of tax functions on results of activity of Ukrainian agricultural producers under current conditions is analyzed; the operational system of taxation is evaluated in the context of its reformation; the present-day trends in the development of economic processes in agriculture and the influence of tax factors on them are outlined; the advantages of special tax regimes are generalized and their efficiency in carrying out fiscal tasks and regulating agribusiness activity is analyzed. Methodological approaches of formation of tax instruments in the agricultural sector under current conditions is grounded; the prospect of using the basic elements of taxation mechanism of agricultural enterprises in Ukraine in the mid-term perspective is analyzed.

Keywords: tax regulation, tax stimulation of agricultural commodity producers, taxation mechanism, special tax regime, tax burden.

Formulas: 0; fig.: 2; tabl.: 1; bibl.: 13.

Introduction

The stringent requirements imposed on Ukraine by the International Monetary Fund and the World Trade Organization with the aim of reducing the amount of tax support for domestic agricultural producers, which leads to an increase in fiscal burden, have a negative impact on their competitiveness and financial sustainability. At the same time, the agricultural taxation system is an essential instrument of state financial support in the agricultural sector of the economy. Today, the global agro-food market is characterized by an increase of the imbalance between the levels of

production and consumption of food due to population growth and reduction of agricultural land, which leads to an increase of world food prices. Considering this, the majority of states are forced to pursue a policy of redistribution of financial resources in favor of agriculture, which is based on tax incentives to accelerate the rate of agricultural production under conditions of expanded reproduction, self-sufficiency and self-financing.

Analysis of recent research and publications

It should be noted that the works by A. Feranecová, E. Manová, M. Meheš, J. Simonidesová, S. Stašková and P. Blaščák [4], A. Gudkov, E. Dedkova and K. Dudina [5], P. Huu Hong Thai and H. Manh Quach [6], H. B. van der Veen, H. A. B. van der Meulen, K. H. M. van Bommel and B. Doorneweert [7] and other well-known scholars have been devoted to the problems of tax regulation of economic phenomena and processes. The problems of tax regulation of agricultural commodity producers in Ukraine are elucidated in many scientific works, among which the publications of famous Ukrainian scholars Yu. Lupenko and L. Tulush [1], P. Sabluk and L. Kurilo [2], M. Demianenko [3] are especially noteworthy.

Despite the rather high level of consideration of the tax regulation of the economy and the activity of agricultural producers, in particular, it should be noted that the state fiscal interests have prevailed in domestic tax relations of agribusiness in recent times. Considering this, the problems of tax incentives for agricultural enterprises have become urgent, which determines the need for this publication and defines its purpose and objectives.

This article is devoted to the generalization of problems of state agricultural tax regulation and the prospects of further use of methods and levers of tax regulation of the economy in the agricultural sector.

The economic and statistical methods, in particular monographic, tabular and graphic methods were used for conducting the research.

Results of the research

The system of taxation of domestic commodity producers is characterized by a variety of organizational forms and is difficult for tax control. Considering this, the unbalanced conditions for the implementation of the state agro-food policy, the inconsistency of the provisions of the current tax law, as well as its incorrect application (both by taxpayers and authorized state bodies), typically provoke an increase in tax burden.

The systematization of agricultural tax mechanisms, which can ensure reproduction process, and tax preferences in developed countries suggest that tax support in the United States and EU countries is provided through tax preferences for the agricultural sector, in particular, the preferential income taxation (full tax exemption, special tax treatment); special instruments for smoothing seasonality, as the main reason of the volatility of agricultural incomes (the method of the estimated average profit margin, optional periods of recognition of capital expenditures, the transfer of losses and payment for future periods, a tax credit); agriculture development tax incentives (Fig. 1).

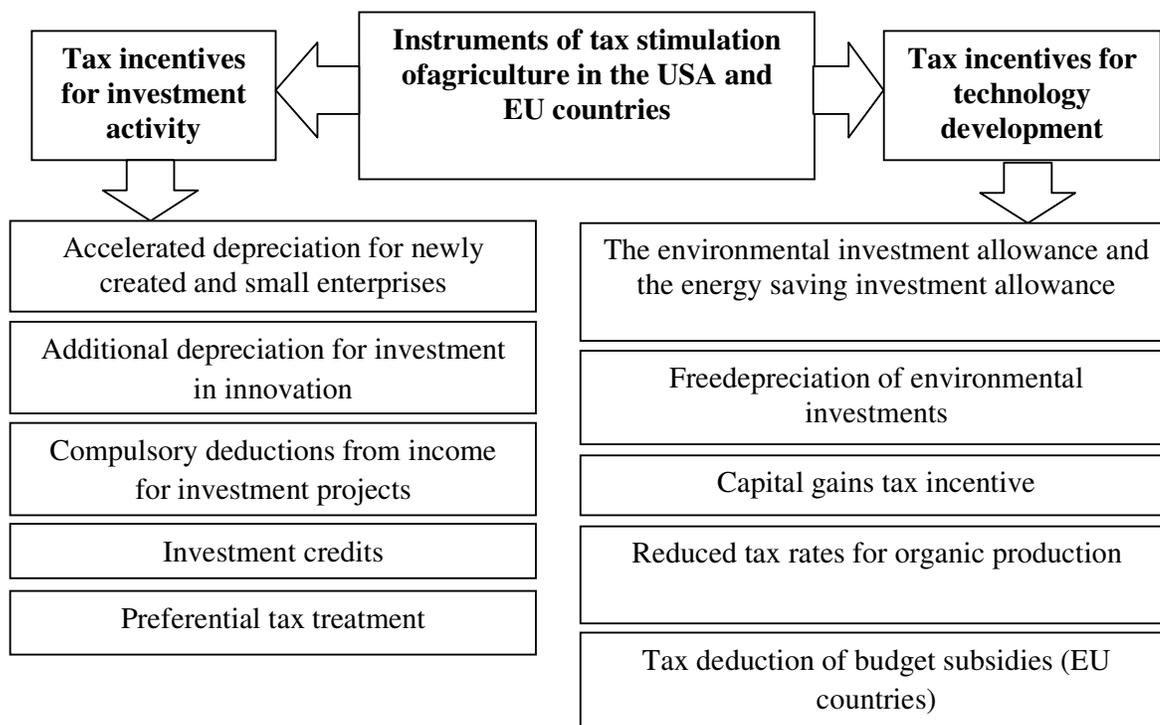


Fig. 1: Instruments of agricultural tax stimulation which are used in the USA and EU countries

Note: compiled on the source material: Veen, H. B., van der Meulen, H.A.B., van der Bommel, K.H.M., van, and Doorneweert, R. B. (2007). Exploring agricultural taxation in Europe: Report. The Hague, LEI.

The experience of developed countries demonstrates the priority of the stimulating function of taxation in the agribusiness. The current domestic tax system, on the contrary, is oriented mainly on strengthening the fiscal and regulatory functions of taxation (Fig. 2). At the same time, the primary task of tax regulation of agricultural production is to reduce the tax burden in order to ensure food security and stabilize the development of the agrarian sector. Achievement of the listed tasks is possible through effective use of the existing instruments of the tax system, first of all, tax incentives for production and sales of agricultural products and logistics on the conditions of expanded reproduction.

The stimulating function of the taxation system of domestic agricultural producers is based on the provision of tax allowances, the application of tax rates, tax compromises and postponed tax payment as the instruments of tax regulation of the agricultural sector. Concurrently, the positive impact of most tax incentives, due to recent changes in domestic tax legislation, is minimized.

Upon entry into force of the Tax Code of Ukraine, the tax system has undergone significant changes, especially regarding the taxation of agricultural producers. In the period till 01.01.2015, the mechanism of direct taxation of agricultural producers was presented by a fixed agricultural tax, which was abolished by the Law of Ukraine “On Amendments to the Tax Code of Ukraine and Certain Laws of Ukraine (about the tax reform)” [9]. The same law provides the simplified system of taxation of agricultural producers — flat-rate taxation where they belong to

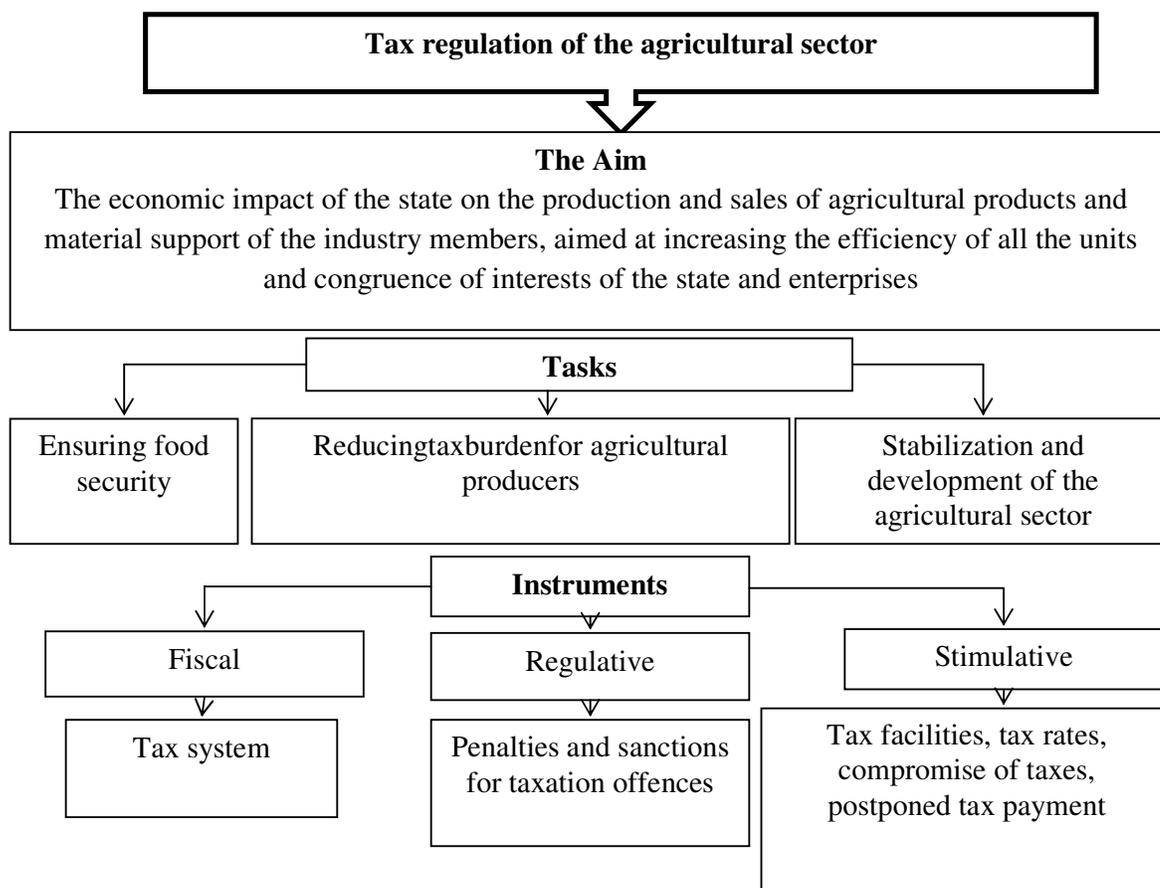


Fig. 2: The system of agricultural tax regulation of Ukraine

Note: summarized by the authors.

the IV group of taxpayers. In this context, agricultural producers have to comply with the requirement for the share of agricultural production for the earlier tax (reporting) year, which should be equal to or exceed 75 percent.

Analysis of the mechanisms of taxation of agricultural producers with a fixed agricultural tax and the current flat-rate tax (Group IV) demonstrates that both taxation systems don't include land tax as the primary means of agricultural production, which negatively affects the land fertility, the introduction of high tech agriculture, compliance with the agrotechnical requirements and expansion of production capacity of organic agriculture [8; 13].

The results of the study prove the ineffectiveness of the mechanism of taxation of agricultural producers with a flat-rate tax since the basis for its collection is not comparable with the effective use of land and financial performance of its payers. Thus, there is a need to replace the flat-rate tax for agricultural producers with a land tax with the right to apply for tax allowances for specific categories of such business entities, in particular, those who increase the production of organic products and invest capital in innovative and investment projects.

Another obstacle to the tax regulation of development of agricultural sector in Ukraine is the purview of a moratorium on the sale of agricultural land, which makes it impossible to fully apply tax incentives and other financial instruments of state support to agriculture in the framework of the planned implementation of a set of measures of agricultural protectionism.

At the same time, many issues on the formation of optimal taxation conditions and tax incentives for the innovative development of the agricultural sector of the Ukrainian economy and the specifics of tax administration of agricultural producers stay insufficiently developed. Therefore, the search for ways to activate the stimulating effect of taxes is aimed at the qualitative transformation of the agricultural sector at the cost of strengthening the financial stability of its producers.

The following indexes show the impact of the taxation system on the financial condition of agricultural producers (Tabl. 1).

Table 1: The dynamics of indexes of financial and economic activity of the agricultural sector of Ukraine*

Index	2012	2013	2014	2015	2016	2016 (+,-) compared to 2012
Agricultural products (inconstant prices, 2010), bln hrn	223,3	252,9	251,4	239,4	254,6	+31,3
Compared to the previous year, %	96,1	113,3	99,4	95,2	106,3	+10,2
including:						
-crop production, bln hrn	145,9	172,1	177,7	168,4	185,0	+39,1
-animal production, bln hrn	70,7	74,0	73,7	71,0	69,6	-1,1
Taxes paid, bln hrn	171,0	715,0	1353,0	1389,0	3223,0	+3052,0
The share of taxes in the gross domestic product, %	15,7	14,3	14,7	16,8	17,4	+1,7
Gross value added of the agricultural industry, blnhrn	109,8	128,7	161,1	239,8	277,2	+167,4
The share of taxes in gross value added, %	2,1	2,0	1,9	1,9	2,3	+0,2
The share of labour costs in gross value added, %	50,2	49,9	46,3	39,1	36,8	-13,4

Source: *The Presidential Administration of Ukraine (2017). Pro vnutrishnie ta zovnishnie stanovyshche Ukrainy v 2017 rotsi: Poslannia Prezidenta Ukrainy do Verhovnoi Rady Ukrainy [On the Internal and External Situation of Ukraine in 2017: Message of the President of Ukraine to the Verkhovna Rada of Ukraine]. – Available at: <http://www.president.gov.ua/news/poslannya-prezidenta-ukrayini-do-verhovnoyi-radi-ukrayini-pr-43086>.*

Despite some law acts for stimulating the domestic agricultural sector, the expected effect of macroeconomic measures taken by the government of the country has not been achieved yet.

In particular, the production of agricultural products in 2016 compared to 2012 increased by 31.3 billion hrn, or by 14.1% and compared to 2015 — by 15.2 billion hrn or by 6.3%. As a result, the fiscal burden of agricultural producers amid the tax reform carried out to expand the base and increase the tax rates with a flat-rate tax (Group IV) is increasing. In particular, from 2012 to 2016, the amount of taxes paid by agricultural producers increased by 3052.0 million hrn, or by 18.8 times, with an increase of its share in gross domestic product from 15.7% in 2012 to 17.4% in 2016. During that period, the tendency towards the increase of the share of taxes in the gross value added of the agricultural sector from 2.1% in 2012 to 2.3% in 2016, as a consequence of the reform of tax legislation, was observed [10].

As a result, from 01.01.2016, the amount of value-added tax when applying the special tax regime for agricultural producers was paid to the budget partly, depending on the type of agricultural products

sold: 85% — for producers of crop production; 50% — for poultry and pig products and 15% — for producers of cattle products [8]. It also led to an increase in the tax burden on agricultural producers and became a destabilization factor of the economic and food security of the country. Therefore, an optimal combination of state regulation and market leverage in the agricultural economy is needed to decrease the negative impact of the reformed VAT collection mechanism for agricultural business entities. In view of the above, at present it is required to develop measures for improving the practice of state influence on macroeconomic and microeconomic processes taking place in agriculture and related industries. Effective tax policy in agricultural production is the most active lever of state regulation of the economy because it directly contributes to the protection of national interests in the expansion of interstate ties for ensuring the main internal factor of the country's economic development — social stability of society. Also, national interests should be based on the strategic goals of the development of the domestic agricultural sector, to ensure the country's competitiveness in the world market. Thus, the authors of the study unambiguously support the viewpoint of Demianenko M. Ya. that under such conditions, the tax policy should serve as a “catalyst”, the guarantor of economic growth of agricultural production [3, p. 125]. Indeed, the effective tax policy of the agricultural sector affects not only the conditions of functioning of the latter but also the settlement of problems of the economic development of the country as a whole.

However, starting from 01.01.2017, upon the request of the IMF, the special regime of indirect taxation for agricultural producers was abolished. Instead, a budget subsidy for the development and stimulation of agricultural production was introduced. However, the mechanism of manual distribution of subsidies prevented obtaining them by small-scale agricultural producers who are potential producers of organic products. Considering this, now agricultural enterprises (primarily small-scale), as never before, are in a need for state support, which can stimulate the growth of production and sales of competitive products, and thus ensure the country's food and economic security.

As a result of the latest tax innovations for the industry, at year-end 2017 most farmers and agrarian associations are adversely affected by the abolition of the special tax treatment of value added tax, since state programs are far less successful, as stated by the government, and state support does not always reach those who need it most — small and medium-sized commodity producers. Mostly insufficient support was provided for the development of the livestock sector, in particular with the specialization of cattle production, thus this particular direction of agricultural production at present requires serious investment and a long time for the establishment of economic processes [13].

The Government adopted the Resolution of the Cabinet of Ministers of Ukraine dated February 7, 2018, No. 106 “On Approval of the Procedure for Using the Funds Provided in the State Budget to Provide Financial Support for the Development of Farm Holdings” [11], which offers a mechanism for using funds provided in the state budget under the program “Financial support for the development of farm holdings”. The Ministry of Agrarian Policy and Food of Ukraine is the chief controller and responsible executor of the budget program. However, the distribution of budget funds, in particular, subsidies, under the requirements of the above normative act, is carried out “manually” through established regional commissions and the commission of the profile ministry, which simultaneously carries out both the distribution of budget resources and the control over their use.

In general, in 2018, the government aimed to support the agricultural sector by 6.3 billion hrn, against 5.5 billion hrn in 2017, which is much less than the amounts retained by agricultural enterprises after paying value added tax when applying a special VAT regime [12; 13]. But even with an increase in the amount of financial support to agricultural producers, the vast majority of them do not receive such assistance because of inefficient distribution of funds. The manual method of distributing budget funds, which is used under current conditions, is ineffective since large-scale enterprises receive the largest share of such funds. Given this, budget support for business entities in the industry should be distributed in automatic mode, in particular, for each business entity, per 1 hrn of the revenue from agricultural product sales.

The next disadvantage of the distribution of state financial support is also a fixed list of statutory

banking institutions, which are responsible for transferring the amount of support. The introduction of the list is contrary to the norms of the Constitution, the Commercial Code, the Law “On State Support to Agriculture” and anti-corruption legislation.

That is why state financial support of agricultural enterprises requires operational monitoring of its distribution and use. Given this, it is reasonable to establish a Monitoring Service under the regional state administrations capable of conducting a proper assessment of the distribution and use of budget and preferential credit resources. Thus, the methodological miscalculations of the distribution mechanism of state financial support for agricultural producers do not compensate for the amount of VAT support (especially for small-scale producers).

In general, it should be noted that the results obtained indicate an untimely abolition of the special regime for the indirect taxation of agricultural producers. Thus, under the conditions of the budget deficit, it is reasonable to restore the special VAT regime for small-scale agricultural producers with an area of agricultural land up to 1,500 hectares and subject to the targeted use of VAT amounts from the sale of agricultural products in operational and investment activities.

Formation and composition of the elements of the tax regulation system of the agricultural sector have its peculiarities, determined by the priorities of the national agricultural policy, and is capable of ensuring socially just relations in the agricultural sector, as well as preserving national natural resources and food security of the country. Indeed, the specificity of agricultural production and its resource potential is an essential factor that significantly affects the self-regulation and expanded reproduction of the vast majority of agricultural producers. Therefore, the comprehensive approach to tax regulation of the agricultural sector should be aimed at coordination of its purpose, tasks, and instruments.

The application of methods and mechanisms of tax regulation and stimulation within the framework of the comprehensive approach should be aimed at reducing the tax burden, ensuring the equity, rationality and stability of the tax system capable of promoting the entrepreneurship, increasing the volume of agricultural production, in particular — organic production, and intensifying the investment activity of agricultural producers.

Conclusions

The results of the conducted research have shown that the fiscal and regulatory properties of the taxation system, which are currently prevalent in the taxation of domestic agricultural producers, significantly increase the tax burden on producers, and therefore do not contribute to increasing the volumes of production and sales of agricultural products.

A significant disadvantage of the taxation of agricultural business entities is applying the current mechanism of direct taxation, which is not consistent with the financial performance of such producers and the effective use of land.

Thus, direct taxation of agricultural producers should be presented by land taxation, which will stimulate the rational use of land resources, compliance with the agrotechnical requirements and expansion of production capacity of organic agriculture.

The untimely abolition of the special regime of indirect taxation for agricultural producers negatively affected small-scale commodity producers. The size of the state financial support is lower than the amounts of VAT support. State financial support is distributed in manual mode, which contradicts the norms of the current legislation.

Taking into account the above, under the conditions of budget deficit and manual distribution of the support amount among agricultural producers, it is reasonable to restore the special VAT regime for small-scale agricultural producers with an area of agricultural land up to 1,500 hectares and subject to the targeted use of VAT amounts from the sale of agricultural products.

The proposed measures will give a boost to the stimulating effect of taxes on qualitative transformations of agriculture in Ukraine and strengthen the financial sustainability of agricultural producers.

Further scientific researches on the problems of tax regulation of agricultural business entities should be devoted to the analysis of the consequences of the abolition of the budget reimbursement of VAT in the export sales of technical crops.

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