



**Analysis of the use of
special tax treatment for
agricultural companies**



ANALYSIS OF THE USE OF SPECIAL TAX TREATMENT FOR AGRICULTURAL COMPANIES

ANÁLISIS DEL USO DEL TRATAMIENTO FISCAL ESPECIAL PARA LAS EMPRESAS AGRÍCOLAS.

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Abstract

The importance of further development of the agricultural sector of economy and solution of tasks set for it necessitated the study of a single agricultural tax as a preferential treatment for agricultural companies. We analyzed the dynamics of investments and taxes, their relationship. We determined that investments are sensitive to any changes taking place in the economy. At the same time, one of the prerequisites for their growth shall be effective tax incentives in the form of benefits and preferences for agriculture. We also analyzed the practical use of the special tax treatment - a single agricultural tax. We determined the advantages and disadvantages of the application of SACT in Russian practice. We found that large companies do not fully use this preferential treatment. The structure of tax payments shows that the most significant is the payment of social taxes, which occupy 62%. In this regard, we gave recommendations on updating this treatment for the agricultural companies in Russia.

Keywords: taxation, agriculture, companies, investments, preferences.

Resumen

La importancia de un mayor desarrollo del sector agrícola de la economía y la solución de las tareas establecidas para él requería el estudio de un impuesto agrícola único como tratamiento preferencial para las empresas agrícolas. Analizamos la dinámica de las inversiones y los impuestos, su relación. Determinamos que las inversiones son sensibles a cualquier cambio que tenga lugar en la economía. Al mismo tiempo, uno de los requisitos previos para su crecimiento serán los incentivos fiscales efectivos en forma de beneficios y preferencias para la agricultura. También analizamos el uso práctico del tratamiento fiscal especial: un impuesto agrícola único. Determinamos las ventajas y desventajas de la aplicación de SACT en la práctica rusa. Descubrimos que las grandes empresas no utilizan completamente este tratamiento preferencial. La estructura de los pagos de impuestos



muestra que lo más significativo es el pago de impuestos sociales, que ocupan el 62%. En este sentido, dimos recomendaciones sobre la actualización de este tratamiento para las empresas agrícolas en Rusia.

Palabras clave: fiscalidad, agricultura, empresas, inversiones, preferencias.

Introduction

The need for the development of the agricultural sector of economy is due to the need for food supply to the population. In addition, as human well-being grows in the developing countries, additional demand for food is created, which in turn requires an increase in production.

The Food Security Doctrine, adopted in Russia, determines that food security is an essential component of ensuring the country's national security.

Therefore, to solve this problem, it is necessary to ensure the sustainability of domestic food production in sufficient quantities to comply with the food safety criteria [16].

At the present stage, about 30% of all workers are employed in Russian agricultural production and more than a quarter of all production assets are concentrated in the field of material production [8].

Meanwhile, there are still factors holding back the growth of efficient agricultural production. In particular, the technical and technological backwardness of the industry, the shortage of qualified personnel and investments.

In this aspect, it is necessary to pay attention to the use of tax instruments to create positive incentives for economic entities.

The evolution of global tax systems has been associated with the transition from a tax-specific fiscal function to a stimulating function. The latter allows us arguing that such an indirect regulation of investment activity can have positive results for the country's economy.

An empirical analysis made by Schiff, M. and Valdes, A. (1992) was based on data from the 1980s, and indicates significant agricultural taxation in an indirect way [11].

Gordon, R. and Li, W. (2009) point out that the tax authorities shall pay attention to the fact that any increase in taxes will lead firms to move from the formal sector to the informal (non-taxable) one. In developing countries, the informal sector is likely to be much larger than in developed countries [2].

Grabowski, R. concluded that tax policy can significantly affect the investments and economic growth. It is necessary to use an effective mechanism that allowed reducing the informal sector in the agricultural economy. This will allow receiving additional revenues to the state budget in the long run [3].

International experience shows that the development of tax systems was carried out through their reform. In particular, the number of taxes paid was reduced, the tax base was expanded, the tax rates were decreased, and the tax benefits were changed.

The use of special tax treatments is more typical for the post-Soviet countries.



Tax incentives are most often used to encourage the development of scientific and technological progress and the introduction of its results in the form of new technologies in the production process. This allows reducing costs and increasing profitability of agriculture. To this end, 25% of profits aimed at the development of production are not taxed in the USA. The EU countries provide for compensation of part of taxes in connection with the implementation of investments.

Modern aspects of the development of tax systems are associated more with the reform of the tax base for the calculation of taxes, the introduction of additional tax deductions or the introduction of differentiated tax rates.

There are problems that the state is trying to solve for a long time in Russia:

- inelasticity of agricultural production, lack of ability to quickly adapt to the changing market conditions;
- high level of physical and moral depreciation of production assets;
- technical and technological backwardness of the agricultural sector;
- high cost of consumed resources compared to the cost of products of own production.

The Russian tax system is focused primarily on the implementation of the fiscal function, which contributes to investment incentives to a lesser extent.

In recent years, emphasis has been placed on direct support to the industry in the form of subsidies, while the possibilities of tax incentives remain underestimated.

Investments are sensitive to the state of the agricultural economy and the macroeconomic conditions that take shape over a specific period of time. For example, the adoption of a number of state programs for the development of agriculture from 2006 to 2008 contributed to the investment growth, with a stable tax burden on business [6, 7]. An increase in taxes in 2010 coincided with a sharp decline in investments over the same period. In general, there is some cyclical nature of these indicators (Fig. 1).

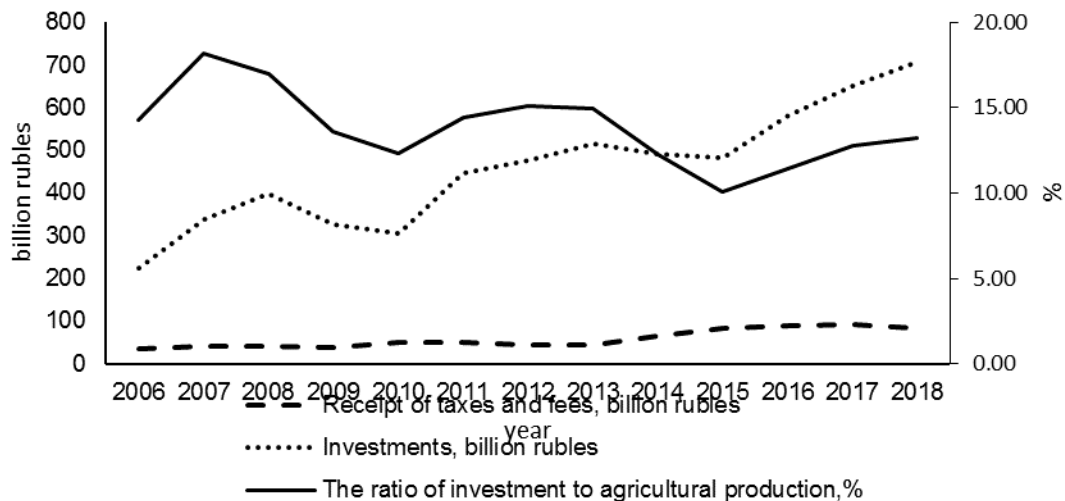


Figure 1. Dynamics of taxes and investments in agriculture.



Source: Rosstat. – URL: <https://www.gks.ru/folder/14036> (accessed date: 05.10.2019) [10].

In this regard, there are relatively few studies by Russian scientists.

The studies made by Kireyeva E.F., Davletshin T.G. are aimed at studying the trends of tax regulation [4, 1].

Practical aspects and problems of applying special tax treatments for the agricultural companies are considered by T.P. Shevtsova (2018), M.R. Pinskaya (2016), L.V. Kuleshova, et al. (2016), A.V. Tikhonova (2015) [12, 9, 5, 15].

Materials and Methods

The study of applying the special tax treatment for agricultural companies was carried out using monographic, abstract-logical and dialectical methods. The official data of the Federal Tax Service of Russia, Rosstat were used as an empirical base.

The study object is represented by the agricultural companies. The study period covers 2006-2018.

Results

Taxation of agricultural producers in Russia provides for several treatments that are defined by the Tax Code: general taxation treatment or special taxation treatments, Table 1.

Table 1. - Types of taxes payable under various taxation regimes

Types of taxes	General taxation system	Special tax regimes		
		Single agricultural tax	Simplified tax system	A single tax on imputed income
Value added tax				
Individual income tax				
Income tax				
Fees for the use of objects of the animal world and for the use of objects of aquatic biological resources				
Water tax				
Government duty				
Transport tax				
Corporate property tax				
Land tax				
Labor insurance premiums				

Source: compiled by the author

Currently, the use of the single agricultural tax (SACT) is being considered as a special treatment for the agricultural producers. The main prerequisites were the need to



reduce the tax burden on the agricultural sector and the introduction of a simplified version of tax accounting. It should be noted that the adopted SACT treatment does not deprive the right to choose another taxation option.

A company may apply SACT, if it meets at least one of the following conditions:

- produces agricultural products, conducts their primary and subsequent processing and sells them. Moreover, the income from the sale of such manufactured products shall be at least 70% of all income;
- provides agricultural producers with the services in the field of crop production and animal husbandry (for example, it prepares fields, distills livestock, etc.). The income from the sale of such services shall be at least 70% of the total income that the organization receives;
- is an agricultural consumer cooperative, and the share of the sale of agricultural products shall be at least 70% of total income;
- is a town-, village-forming fishery management organization and meets certain conditions of the law;
- is a fishery organization and the number of its employees is not more than 300 people per year. The share of income from the sale of catch and products manufactured from it shall be at least 70%. Fishing shall be carried out on their own or chartered vessels [13].

SACT is paid from the difference between income and expenses at a rate of 6%.

The legislation provides that the tax rate may be reduced by regional laws. Payment frequency is based on the results of six months and at the end of the year.

An analysis of this tax treatment revealed some of the advantages and disadvantages of its application (Fig. 2).

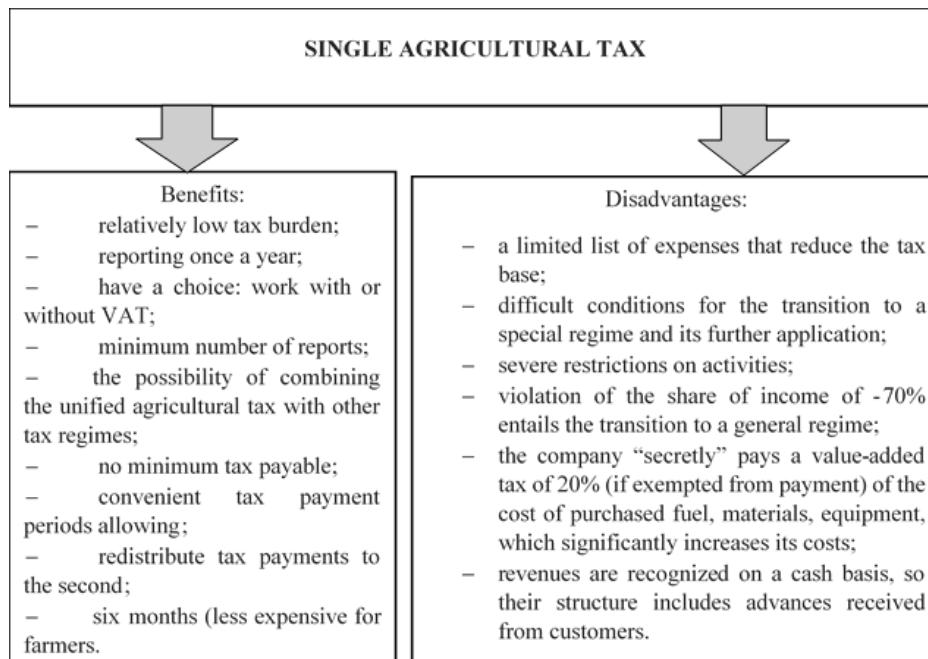




Figure 2. Advantages and disadvantages of a special tax regime for agricultural companies

Source: compiled by the author

At the end of 2018, only 24% of all registered agricultural organizations used the single agricultural tax. At the same time, only 21% of all tax returns were submitted by the legal entities (companies). In the structure of aggregate taxes, such economic entities occupy the largest share - 72%, which is associated with their income (Table 2).

Table 2. - Accrual and payment of a single agricultural tax by agricultural companies for 2018

The name of indicators	Indicator values		
	Total	including	
		organizations	individual entrepreneurs and peasant (farm) enterprises
Amount of income (billion rubles)	1,690	1,316	374
Share in income, %	100	78	22
Amount of expenses (billion rubles)	1,445	1,142	303
The specific weight in expenses,%	100	79	21
Tax base (thousand rubles)	283	207	75
The proportion in the tax base,%	100	73	27
The amount of loss received in the previous (previous) tax (tax) period (s), decreasing the tax base for the tax period (billion rubles)	27	24	3
Specific weight in the amount of loss,%	100	88	12
The amount of the calculated single agricultural tax (billion rubles)	15	11	4
Specific weight in the amount of the calculated single agricultural tax,%	100	72	28
The number of taxpayers who submitted tax returns on a single agricultural tax (thousand units / thousand people)	97	20	77
The proportion of taxpayers, %	100	21	79
including:			
The number of taxpayers who submitted zero reporting (thousand units / thousand people)	9	1	8



Source: The Federal Tax Service. – URL:
https://www.nalog.ru/rn77/related_activities/statistics_and_analytics/ (accessed:
10.05.2019) [14]

The main reason of refusal by large agricultural companies of using SACT is the use of the cash method of determining income and expenses, as well as the inability to deduct the value added tax.

For large agricultural organizations, the possibility of obtaining a tax deduction for value added tax is one of the determining factors in deciding when choosing a tax treatment.

The acquisition of material and technical resources from counterparties, as a rule, is associated with VAT payment at a rate of 20%, which entails their appreciation, respectively. In practice, the deductions are so significant that it is unprofitable for such companies to use SACT. Moreover, it is possible to use zero income tax rate within the general taxation treatment, if the share of agricultural products in income is 70% or more.

From 01.01.2019, it was undertaken at the legislative level to solve this problem by introducing VAT payable by the taxpayers using SACT. However, at the moment, such tax decisions are still difficult to assess, and the agricultural companies themselves are in no hurry to switch to SACT payment.

A study of the structure of accrued taxes in the direction of “crop and livestock farming, hunting and provision of relevant services in these areas” allowed us making a conclusion that the largest share in payments is made by insurance premiums for compulsory social insurance - 61.96%, personal income tax - 31.42% (agricultural companies - tax agent). The payment of taxes under the special tax treatments is 5.52%, and income tax - 4.17%.

Summary

Thus, the most significant tax burden on the agricultural business is provided by social taxes, which shall be differentiated depending on the size of agricultural organizations and industry sector.

SACT is not used by the economic entities everywhere.

Further improvement of such treatment and its adaptation to the peculiarities of the functioning of agriculture and the financial situation of companies are required.

As recommendations, we suggest considering the following areas:

1. Expand the list of expenses that are taken into account when calculating SACT. Thus, work in progress expenses are not taken into account in the period, in which they have been incurred.
2. When taxing, it is necessary to take into account the peculiarities of functioning of the agricultural sub-sectors, which are in completely different conditions (for example, poultry, pig and beef cattle).
3. To decrease tax burden of small businesses in the field of agriculture in the regions where it is necessary to stimulate its development.



4. To expand the possibilities of regulating the tax burden by regions.
5. To stipulate the use of investment tax incentives when using SACT.
6. To introduce a preferential investment tax credit.
7. To reduce rates and size of insurance premiums to the extra-budgetary funds for small businesses, subject to the implementation of investment projects.

Thus, the reform of tax legislation in order to implement its incentive function will allow for additional growth in investment and volume of agricultural production in the future.

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