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**NON-SECTORAL POLICIES FOR THE AGRICULTURE AND AGRO-FOOD SECTORS:  
TAXATION AND SOCIAL SECURITY**

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**NOTE BY THE SECRETARIAT**

This paper relates to the project concerning the potential of non-sectoral policies to address issues in the agricultural and agro-food sectors under Activity 7 of the 2003/04 programme of work of the Committee for Agriculture. It has been prepared by Professor Berkeley Hill of the University of London in collaboration with the Secretariat. It was declassified by the Working Party on Agricultural Markets and Policies at its meeting in April 2005.

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## **NON-SECTORAL POLICIES FOR THE AGRICULTURE AND AGRO-FOOD SECTORS: TAXATION AND SOCIAL SECURITY**

### **1. Introduction**

1. This paper relates to the general question of differentials in systems of taxation and social security and their role in addressing problems in the agricultural sector or in achieving the objectives of agricultural policy. It has been undertaken under the auspices of the 2003/2004 programme of work of the OECD's Committee for Agriculture under the heading "*Designing the Policies, Institutions and the Knowledge Base to Achieve Agricultural Policy Reform*".

2. Several sources have been used in compiling this report. Some of the country chapters rely on information prepared by the Norwegian Agricultural Economics Research Institute (NILF 2002). Other material was taken from books, articles or from government websites. In some cases the material has been supplied by OECD member governments. Corrections and updates have been supplied by many others. Some material has been derived from the Producer Support Estimate (PSE) data bases and the associated documentation.<sup>1</sup> It should be noted that there are still some gaps in information for countries that are included, and several are missing completely (Portugal, Greece, Iceland, Luxembourg, Mexico and Turkey). Extensive use has been made of more general tax studies undertaken by the OECD and these are referenced as appropriate throughout the text. OECD's Centre for Tax Policy and Administration has, in addition, assisted in the review of the document.

3. Following this introduction, section 2 raises a number of conceptual issues related to the establishment of appropriate benchmarks against which to define, firstly, whether particular features of the tax and social security code represent a differential treatment of agriculture and, secondly, whether such treatment bestows benefits on the farm sector relative to other economic sectors. Section 3 establishes a typology of tax types and explores some of the concepts, including the notion of revenue forgone (or tax "expenditures") in that more detailed context. Section 4 contains a general description of the kinds of differential treatment that have been identified and, in the few cases where estimates are available, presents data on the tax expenditures involved. The information is organised mainly in summary and tabular form. This section draws on the contents of Annex 1 that comprises country by country descriptions of the tax and social security treatment of farming in a large number of OECD countries. These descriptions adopt a common structure but vary in terms of completeness of the information. Where estimates of tax expenditures are given, these should be treated with caution and not compared across countries as there is a general lack of information on the methods of estimation used by the different sources from which they come. Section 5 considers the policy implications, including a general assessment of the measures described in the inventory with respect to their potential to distort production and to contribute to solving problems in the agricultural sector in ways that are marginally or non-production and trade distorting.

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1. The PSE is a measure of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers. It is published annually for OECD countries and selected non-OECD countries and can be accessed at [www.oecd.org/agr](http://www.oecd.org/agr).

4. The analysis of policies for agriculture is frequently concerned with the support given to agriculture and its implications for production, land use, incomes, trade, the environment, rural society and other issues. Many forms of support involve implementation mechanisms that incur budgetary outlays that are readily identified. Others provide benefits in less transparent forms (such as border restrictions) or to the industry as a whole (such as government subsidies to research). Support in the form of concessions in taxation systems provides benefits to individual producers and thus has distributional as well as sectoral significance. Though noted in general terms in studies of support to agriculture (for example, OECD 1983), the level of attention such concessions have attracted has, however, not been great.<sup>2</sup> This reflects *inter alia* the complexity of concessions when viewed at international level, the fact that often these concessions are not seen as a normal component of agricultural policy (though capable of having significant impacts on it) and thus out of the remit of agricultural policy analysts and administrators, and the extreme political sensitivity with which taxation issues are often viewed.

5. Taxation concessions extended to agriculture may be, however, a substantial explanatory variable which should not be ignored in agricultural policy. They affect the levels of post-tax income of farmers relative to other groups in society and internationally. They may impact on opportunity costs of production and thus, via comparative advantage, on competitiveness of commodity production and trade within and between countries. They may attract resources into agriculture and help to explain why existing resources are reluctant to leave. They affect the ability of farmers and landowners to conserve accumulated wealth in the face of policies that, for the rest of society, tend to break it up, and they may encourage income to be taken in the form of capital gain, with implications for capital markets. The present array of tax concessions may also be seen in the context of their histories, as they are the manifestation of past policy decisions usually taken with the intention of dealing with specific problems. However, it should also be noted that some of the rationale are no longer pertinent, having been overtaken by structural or other changes in the sector.

6. Tax concessions to agriculture can be seen as a form of subsidy and often form an alternative to programmes involving direct outlay. Because they do not involve budgetary expenditure, the level of public scrutiny is often reduced (Australian Treasury 2004), yet to ignore them is to understate the real extent of government involvement with the industry. Consequently, in the World Trade Organisation agreement on subsidies and countervailing measures (WTO 1999) government revenue that is otherwise due but is foregone or not collected is treated as a subsidy. Also, in principle, tax concessions are included in the coverage of the Producer Support Estimates (PSE) (see Portugal 2002). In practice, however, they are not fully identified or evaluated. This is partly a matter of practicality.

- Tax concessions are less transparent as they do not involve budgetary expenditure and thus require some comparison with the counterfactual before they can be estimated. The counterfactual may be difficult to establish.
- They can come in many forms (various concessions on incomes and profits, on capital taxes, on other contributions etc.).
- They are based on taxation and social security regimes that vary widely in nature between countries and, especially with capital taxes, often contain sub-national variations.

7. In part, the lack of identification and evaluation may reflect the stance of countries that taxation is purely a national matter and thus, attempts to draw international comparisons are politically highly sensitive, especially when the focus is on agriculture. For example, within the EU no central record of taxation as applied to agriculture appears to have been compiled. Though there is no common EU policy

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2. A rare example of a study that looks at the distributional implications of tax expenditures is Hanson and Eidman (1985).

on taxation that might require such a record, information on differentials in the taxation of farmers and agricultural assets holds a clear relevance for the evaluation of the income objectives of the Common Agricultural Policy (CAP) State aid provisions also include taxation. But no such information is available.

8. Nevertheless, some OECD countries are very active in their study of tax expenditures. Most notable is the United States where Stanley S. Surrey (an Assistant Secretary of the US Treasury for Tax Policy) is attributed with introducing the term “tax expenditure” and stimulating the first estimates in 1967. Today several annual series are produced at Federal level and some 37 States also publish estimates. Both Canada and the UK started making estimates from the late 1970s, and by 1985 many other OECD members had either adopted formal tax expenditure measurement or had conducted preliminary studies (Surrey and McDaniel 1985). Today around half of OECD countries report tax expenditures and nine have made it a legal requirement<sup>3</sup> (World Bank 2004) though the coverage of forms of taxation varies (most being restricted to current taxes) and the treatment of agriculture is not always explicit. In addition to the US, Australia has been at the forefront of identifying and quantifying tax expenditures involving agriculture, its Treasury being committed to publish annual estimates as part of its general reports of tax expenditures (Australian Treasury 2004).

9. In addition to the analysis of agricultural policies using PSEs, other OECD work on environmentally harmful subsidies has also identified tax and similar concessions as a potentially important but poorly documented form of subsidy. For example, exemptions from taxes on variable inputs have been shown to be potentially highly distorting in terms of production and trade impacts. Because of the incentive they provide to intensify the production process they are also potentially among the most environmentally harmful subsidies. Tax concessions are relevant to trade negotiations; the WTO definition of a subsidy when applied at the sector level (such as agriculture) clearly includes tax concessions extended to operators in the sector as affecting markets for agricultural commodities and inputs used by agriculture.<sup>4</sup>

10. Another example is provided by the increasing international interest in calculating the disposable income of agricultural households, the relevance of which to the proper monitoring of agricultural policy within the EU has recently been underlined by the EU Court of Auditors. To calculate disposable income, either as part of the EU’s sector-level Income of the Agricultural Household Sector (IAHS) statistics or in household-level studies needed to study the incidence of poverty in agriculture (see OECD 2003), requires the deduction of actual payments of (personal) taxation and social contributions (taxes on products and other taxes on production having been taking into account when measuring the net income from agricultural activity). The relevance of concessions to the disposable income of agricultural households and thus on the living standards of the agricultural community, is obvious. Results published show that, compared with the national all-households average, agricultural households typically pay a lower share of their total income as taxes and social contributions, though this is by no means all attributable to concessions. Such studies, however, usually ignore the special treatment frequently given to agricultural property in taxes applied when ownership is transferred, particularly when passed between generations, which can be highly important in shaping farmer behaviour and determining lifetime rewards.

11. Finally, there may be situations in which the taxation and social security systems could be used to tackle agricultural problems in ways that are more efficient, more cost-effective or more equitable than sector specific measures. Smoothing mechanisms within the income tax code may be a less costly and

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3. The countries with legal requirements are Australia, Austria, Belgium, France, Germany, Italy, Portugal, Spain and the United States. Most reporting countries do so annually except Germany (biennially) and Italy (less frequently)(World Bank 2004, cited in Australian Treasury 2004).

4. In the literature, the term “taxation expenditure” is often used to mean a concession (in contrast with direct expenditure).

more efficient way to deal with farm income instability than current systems. Persistent low income problems may be better handled by the social security system. Impediments to structural adjustment that arise through capital and inheritance taxes could be removed. These same taxes could be used to encourage structural change of a kind that is beneficial in terms of a country's agricultural and rural policy objectives.

12. At an international level the OECD has a history of looking at taxation and tax expenditures in general (OECD 1979, 1984, 1993, 1996, 2004) and the World Bank has carried out studies of tax expenditures including both developed, developing and transition economies (World Bank 2003, 2004). OECD work on incomes and capital in agriculture has touched on preferential taxation and social contributions (OECD 1970, 1983, 2003). However, there has never been a comprehensive international study of the subject that involved the compilation of a detailed inventory of concessions as applied to agriculture. This study makes a first attempt to develop such an inventory.

13. It is useful at the outset to clarify the sorts of taxes under which differential treatments may apply for agriculture. The OECD (1993) has applied the following classification for the main groups of taxes, on which the NILF (2002) has expanded.

- Taxes on income, profits and capital gains – which may apply quite complex rates for different types within this group and degrees of progression within groups. It is worth noting that capital gains appear in this category rather than among taxes on property, reflecting the view that these represent a form of personal income.
- Social security contributions – which are a mixture of a tax, duty and insurance.
- Taxes on payroll and workforce – which concern farm operators as employers.
- Taxes on property – which may relate to the value of the real estate, to its transfer by gift or inheritance or by sale (such as Stamp Duty).
- Taxes on goods and services – such as sales tax and Value Added Tax (VAT).
- Other taxes.

The review of tax concessions will follow this basic framework. It is worth noting that by doing so a more comprehensive inventory is built up than is conventional in studies of tax expenditure which tend to consider only current personal and business taxes and VAT (World Bank, 2004).

14. NILF (2002) points out that taxation must have a legal foundation and thus only public authorities can have taxation rights in a country and thus exercise differentials in the way that taxation is applied. There may be a mix of authorities involved (local, regional and national governments) and some may be due to parts of government for whom revenue collection is only an incidental activity. Which level and type of authority is involved is not a central concern to this review. However, the multi-layer approach means that, within a country, tax concessions to agriculture may differ geographically; this is especially likely in those with a federal structure. Sub-national taxation may involve local income taxes, but the more common are annual taxes on property that are often the main source of revenue at this level of government. Experience suggests that both these and the concessions they contain for agriculture can be complex and may vary between parts of a country, which makes the estimation for a whole country extremely data intensive. It may also complicate the definition of the counter-factual. While it is anticipated that the greatest values of preferential treatments arise from national taxation, the possibility of more local ones must also be considered. Consequently, while assembling an overall picture of taxation regimes can be arduous, it is essential in order to accurately evaluate the benefits from concessions. To avoid this task may lead to significant under-estimation of the role of tax concessions in providing support to farmers and their families.

## **2. Conceptual aspects of the definition of concessions in the tax and social security systems as they affect farmers**

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16. Several conceptual issues have to be tackled at the outset that are problematic to various degrees:

- The concept of agriculture in the context of this project.
- Why take both taxation and social security systems together?
- What constitutes differential treatment, and in particular what is a tax concession?
- What is a tax concession to agriculture (which leads to the identification of concessions to be evaluated)?
- What does measurement comprise (which considers how evaluation of the concession may be carried out)?

### **2.1 *Concept of agriculture in the context of this project***

17. Agriculture (as derived from international standard classifications of industries such as ISIC Rev.3<sup>5</sup> and NACE Rev1<sup>6</sup>) is a production activity that is distinct from the provision of other land-based goods and services, such as forestry, or tourism on farms, or housing services to farmers and others in rural areas. Conceptually, it can be separated from landownership as an economic activity, though of course many operators are also owners of the land they farm. However, taxation relates not to an abstraction such as an activity but to institutional units that form the “subject” of taxation, real people or legal entities (such as companies) that are required to pay the taxes. In terms of numbers of producers, agriculture is undertaken predominantly by household-firms so taxes appropriate to individuals or groups of individuals as generators of income and owners of assets must claim the greatest amount of attention, though the corporate sector is of rising importance and will have a special place in countries of central and Eastern Europe.

### **2.2 *Why take tax and social-security systems together?***

18. Taxes come in various forms, noted above, and these interact with each other and are, at least in part, capable of substitution. For example, income, wealth and capital gains are related economic concepts that appear within the sequence of accounts for households within the System of National Accounts. If income is taxed whereas capital gains and property are not, there will be a tendency for operators to adjust the form in which they take their economic rewards to minimise their tax burden. The accumulation of assets may be one way in which farmers choose to take their returns, especially where these can be bought using loans the interest on which can be treated as a deductible cost for income assessment and where there are substantial concessions on the realisation of assets on retirement or when passed between generations. In countries where the infrastructure necessary to tax incomes does not exist, alternative ways may be sought to raise revenues, including taxes on immovable property and the use of inputs. Thus an assessment

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5. ISIC Rev 3 is the United Nations International Standard Industrial Classification of All Economic Activities. See paragraph 1.47 of the SNA93. This is linked with the United Nations Central Product Classification (CPC).

6. NACE Rev 1 is the General Industrial Classification of Economic Activities within the European Communities. It is a more detailed version of ISIC Rev.3 adapted to specifically European circumstances. It is also directly linked with the statistical classification of products by activity (CPA) within the European Union, which is the equivalent of the CPC.

of concessions to agriculture should consider an adequately wide tax base (or “object” of taxation). Otherwise there is a danger of misrepresenting the overall level of differential treatment afforded to agriculture.

19. This argument is the explanation for why this paper includes differential treatments given to agriculture within social security systems. In some countries social security is financed through general taxation. Even when accounting is separated, with inflows and outflows from the social security fund, in practice contributions by farmers for themselves, other self-employed family members and employees can usually be viewed as a form of taxation and is often integrated with a country’s taxation system. To exclude social contributions in countries where they are accounted for separately would be a source of bias in the overall assessment of support to agriculture. Hence, it is preferable to take both together to maintain harmonisation in the tax base.

### **2.3 *What constitutes differential treatment, and in particular what is a tax concession?***

20. This starting point of this paper is the differential treatment given to agriculture in systems of taxation and social security. Differentials can be negative or positive, though the context of this work suggests that there is a particular interest in those that treat agriculture in a favourable manner by lowering the burden that otherwise might apply. This implies that some tax revenue is forgone and economic incentives provided in much the same way as would happen had a programme involving budgetary expenditure been used. Hence the term “tax expenditure” is used in this context.

21. In broad terms, tax expenditures are concessions that fall outside a tax norm or benchmark (World Bank 2004). A useful more detailed description is “any law ... that exempts, in whole or in part, certain persons, income, goods, services, or property from the impact of established taxes, including, but not limited to tax deductions, tax deferrals, preferential tax rates, and tax credits” (State of Oregon 2003). The implication of tax revenue forgone is clear. Alternatively, according to James and Nobles (1992) quoted in NILF (2002), tax expenditure occurs when a fiscal advantage is conferred on a group of individuals, or a particular activity, by reducing tax liability rather than by a direct cash subsidy. Another formulation of tax expenditure, defined in the Congressional Budget and Impoundment Control Act of 1974 (“the Budget Act”) is “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability” (quoted in JCT 2003).

22. Tax expenditures can be viewed as having one or more of the following aims:

- a) providing financial assistance to certain groups of taxpayers
- b) providing economic incentives that encourage specific taxpayer behaviour, or
- c) reducing the cost of tax administrations by simplifying.

The first two could be implemented using direct expenditures rather than by tax concessions. The third is concerned primarily with the elimination of inefficiencies within the tax bureaucracy.

23. Special financial assistance that is not linked with a required response is usually linked to issues of equity. For example, an OECD study of 1983 seems to be concerned with equity when commenting that

“general tax laws often fail to take account the special characteristics of farm structures and output. Agriculture being by nature a land-using activity, farm property taxes may take a disproportionate part of farmers’ income. The taxing of farmland on its market value, which is often not related to its value in agricultural use, and the taxing of capital gains, sometimes even before they are realised, pose serious financial problems. Further, since a farm (unlike most other businesses) normally has to be refinanced every generation, the levying of high death duties puts a heavy burden on the successor who may be

forced to sell portions of an economic farm unit. The incidence of taxation may become too large especially in a period of falling farm incomes.

24. Given this particular problem definition the appropriate solution could be a differentiated system, giving preferential rates for taxes on agricultural property, capital gains tax and inter-generational transfers.

25. Special treatment under taxation regimes can also serve as a policy instrument without the intention to provide an income or wealth benefit being a central aim. For example, accelerated depreciation of investments in pollution control equipment can be used as a way of encouraging improvements in environmental quality. Income from some forms of subsidy (such as payments for undertaking environmentally-friendly practices) can be declared as tax-free as a way of encouraging their take-up. Such instruments will have, in their design, a notion of the value to society of the service and the additional cost to the business of providing that service. Under these circumstances, while support is being provided through the taxation system, the purpose is not to increase the incomes and welfare of the units taxed. Nevertheless, there will be some impact on incomes. Of course, over-compensation for costs may arise, which could result in income enhancement. A similar case, but using a longer time-scale, could be built up for special treatment of rural real-estate when passed between generations if it were believed that continuity of ownership by families was important for the maintenance of social cohesion or landscape features

26. On purely practical grounds, a separate system of taxation might be justified for a group of institutional units, such as farmers. In some EU countries book-keeping by farmers is not universal, or even normal, so some alternative has to be found, typically based on standards per hectare. The additional tax revenues that might flow from shifting to a system based on book-keeping might compare unfavourably with the marginal cost to the public sector of administering such a system, and the additional private costs that individual farmers would face could have political consequences. Similarly, a special simplified system of Value Added Tax might be justified.

27. The focus of this paper is on those differential tax treatments that could be classed as subsidies, in that they result in benefits to the economic situation of farmers and their households, either as a prime aim or as a spin-off. Judged by the definitions given above, at first sight the nature of a concession resulting in a tax expenditure is relatively straightforward. It can come in various forms of special treatment that relate to one of the basic features that characterise the structure of a tax. These can be formulated as follows (OECD 2004)

- Exemptions: amounts excluded from the tax base
- Allowances: amounts deducted from the benchmark to arrive at the tax base
- Credits: amounts deducted from tax liability
- Rate relief: a reduced rate of tax applied to a class of tax payers or taxable transactions
- Tax deferral: a relief that takes the form of a delay in paying tax

28. The concept of a concession is, however, only valid within the context of a “normal” taxation system against which the differential treatment in one of the basic structural characteristics of a tax can be judged. The yardstick of normality will usually be the national taxation system, but this may be difficult to establish where there are substantial variations between local tax regimes (such as in a Federal system in which property taxation is set at the state or county level). Even within a country and a single tax system there can be disagreement of what is normal. For example, in the US when making estimates of Federal tax expenditures the Joint Committee on Taxation includes several items (for agriculture) as forms of concession that the Treasury excludes from its estimates, while the Treasury includes one item that the JCT

excludes (JCT 2003)<sup>7</sup>. Behind such disparities are alternative views of what is “normal” in the Federal system (a proliferation of exceptions will obscure this), the level of expenditure at which the concession is regarded as being worth recording (then *de minimis* revenue loss) and, when considering concessions on income taxation, the breadth of the definition of income. The issue of what is normal, and thus the benchmark against which concessions are judged, is more than just technical; it is rooted in different views of the normative tax base (OECD 2004). Nevertheless it is important to be clear about the specification of what is considered normal in any single set of circumstances. As an example, Australia publishes as part of its annual Tax Expenditures Statement explicit benchmarks for each tax, against which departures can be assessed (Australian Treasury 2004).

29. If the aim is to look at the way that different countries provide support to their agricultures via tax concessions and to draw policy conclusions it is important to be aware of the wide variations in these underlying national taxation systems. What is a tax concession in one country may not be a concession in another. For example, in a country that has an annual wealth tax, giving an exemption to agricultural assets may represent a major form of income support. However, if no such form of tax is applied nationally, no concession to agriculture will be recorded. To take another example, while in most countries that allow farmers to average their incomes over a short run of years it is seen as a concession to farmers because other groups are not usually granted this facility, in the Netherlands it is permissible across the economy and therefore does not represent a special dispensation for farmers. Yet one more example is provided by two countries that might impose the same type of tax, with the same effective rate, but could accomplish this in different ways. The first country could impose a high rate of tax but with numerous deductions and exemptions for agriculture. The second might impose a low rate of tax with no deductions. While the level of tax on agriculture could be identical in the two situations, a tax expenditure would occur in the first case but not in the second. While a policy analyst may find the presence or absence of a particular form of taxation (say, taxes on energy use) or the effective rate of tax of some interest, these differences between countries do not necessarily imply the presence of a tax expenditure or concession, the appropriate benchmark being the treatment of other businesses or individuals in the country in question.

30. Concessions for social contributions face additional problems. A preferential treatment might be taken to be a lower level of contribution than is paid by other groups in society for a given level of benefits, or more benefits for a given level of contribution. However, establishing the existence of preferential treatment in social security is particularly complex. In some countries the social security provision for farmers is separate from that for the rest of society, or there are a number of other sector-level schemes (for miners, fishermen etc.). The fragmentation makes comparison with the national situation less than straightforward. While farmers’ social security is characterised by large government inward transfers to fund the benefits, this may not be confined to agriculture and will reflect demography as well as any special regulations. Even in a unified system, the age profile of people in agriculture may mean that there are substantial net transfers to farmers. Thus, what is a concession in the area of social contributions requires a look at both the contributions and benefits sides and comparisons made which also encompass the level of government contributions.

#### **2.4 What constitutes a tax concession to agriculture?**

31. The “*to agriculture*” part of the question above is similarly less easy than initially appears, but has a helpful parallel in the classification of subsidies and the identification of those that are “specific” to agriculture. While some subsidies are clearly exclusively associated with the production of agricultural commodities (such as payments per animal reared), others (such as government financial support to

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7. For example, the ability to use cash accounting in agriculture is counted as a provision that leads to tax expenditure in the JCT estimates, but this is excluded from the Treasury estimates. The latter argues that averaging is part of normal income tax law, but the JCT treat it as a departure from the normal.

infrastructure or to basic research) cannot be allocated to particular activities (or groups of activities) so that, at the level of the whole economy in which all flows have to be consistent, a special category for these non-specific subsidies will have to be created. The problem with tax concessions is less acute in that, for a concession to apply, generally there will have to be some legally robust articulation of the sorts of situations in which it operates. Agriculture will often be designated within this description.

32. But agriculture may not be the only activity to which the concession applies, and this lack of exclusivity poses a conceptual problem of classification. Often the treatment will include agriculture and some other activities, such as forestry, so that the specificity is diluted and the problem of deciding the counter-factual is made a little more difficult. Another example is the income averaging that in some countries is open to farmers and a few other professions (such as writers); in the UK, for example, averaging could be reasonably classed as a preferential treatment of agriculture on the ground that farmers dominate the number of cases. If, however, what starts out as a specific agricultural preferential treatment is extended to all small businesses (as has happened to averaging in the US), then this becomes “normal” and it is harder to justify the continued classification of averaging in agriculture as giving rise to a tax expenditure.

33. The existence of a concession to agriculture is also made difficult if the basis of the tax is unique. For example, some would argue that exempting agricultural land from annual taxes on business real estate does not represent a concession, as this form of asset is peculiar to agriculture and it does not represent an asset that is directly comparable with office premises or golf-courses. But explicit mention of agriculture in a concession’s description may not always strictly be necessary for one to exist. For example, a tax concession nominally available to all rural businesses but, in practice, largely taken up by farmers would probably be regarded as specific to agriculture. Thus, in deciding what to include as a concession to agriculture both the way that it is labelled and the *de facto* way in which it is operated should be taken into consideration. Transparency of the details of coverage is clearly a necessary part of any inventory of such concessions. Though a decision tree may be helpful, an element of subjective judgement is inevitable.

34. Some attention should be given to specificity where negative concessions exist, *i.e.* agriculture is given an unfavourable treatment in the taxation system. As a first example, there are some taxes specific to agriculture (and forestry), such as on standing timber or on the use of pesticides and fertilizers (to discourage their use for environmental purposes). While these are clearly specific concessions, there are no significant general uses of these taxes within single countries, so no obvious counterfactual exists against which to establish an unfavourable treatment (or a favourable one). The fact that some countries or regions (*e.g.* Scandinavia) apply taxes on pesticide use whereas other countries do not is of interest in policy analysis. However, the departure from an international norm (assuming this can be established) is a rather different concept from that of concessions as applied in most of this report. As a second example, there may be legal restrictions that, though not essentially ones of taxation, prevent farmers from utilising regular tax rules. For example, in some countries farms can be found (usually large ones) that are arranged as corporations, even though they are owned and operated by members of the same family. This is done usually to minimise taxation liability. If there are laws that prevent, or at least discourage, the formation of company farms, this may represent *de facto* an unfavourable treatment of agriculture.

#### **2.4 The evaluation of concessions to agriculture**

35. While there is broad agreement on the conceptual definition of tax expenditures, there seems to be no widely accepted operational methodology for estimating them (Canada, Department of Finance 2001). A range of approaches exist internationally, some very broad in terms of what forms of concessions are included. Here emphasis is on the way in which estimation is carried out for a single tax. Nevertheless, where some of the more complex special treatments are involved (such as deferrals) there are a number of elements that might be disputed.

36. Though tax expenditures are defined in terms of special provisions in tax regimes that give rise to revenue losses, the evaluation of these concessions does not conventionally depend on the measurement of these losses. Rather, evaluation focuses on the rather crude calculation of the difference between the amount of tax currently paid by the taxed units under the preferential rate and what they would pay were “normal” taxation rates employed, assuming that such a yardstick of normality can be found. Thus any adjustments that the taxed units might make were normal tax rules actually applied are ignored. For the US, the Joint Committee on Taxation unequivocally states “A tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result from a recomputation of tax without benefit of the tax expenditure provision” (JCT 2003, p17). Where several concessions exist, the calculation for each is done separately and the individual estimates then summed, implying that possible interactions between concessions are ignored. Where OECD countries make estimates (given in the empirical section of this paper), this simplistic approach seems to be used, essentially answering the question “with the existing pattern of resource use and income, what reduced tax liability to tax payers result from using the concession”.

37. Tax expenditures measured in this way do not, therefore, represent accurately the size of the actual loss of tax revenue incurred by the concession. This would involve a calculation of the impact on revenues that would follow the repeal of the concession. Most, perhaps all, concessions result in an adaptation in the behaviour of the unit taxed (farmers and landowners). However, the degree of change (and hence the importance of estimating it) will vary with the type of concession. For concession on taxes on profits and incomes, and on social contributions made by individuals, the nature of the concession may make it virtually decoupled from production decisions in the short term, so that adjustment might be ignored. In the longer term, if there is a differential between the effective taxation of incomes in agriculture and other sources, a reallocation towards the less-heavily taxed one would be expected. This could affect decisions on diversification and pluriactivity. However, concessions on taxes applied to outputs or inputs (such as reducing the liability to make social contributions for hired labour, or reduced tax on fuel) could have greater impacts on production decisions and thus it could be more important to take into account changes in the volume of output and inputs when estimating tax revenue forgone. Specialist literature on the taxation on land has a long history, with the concept of economic rent being bound up with the low opportunity costs of keeping land in production, low transfer earnings and hence the possibility of imposing taxation without changes in use. Other reasons why the conventional valuation of tax expenditures does not coincide with revenue forgone by the tax authorities are that (a) timing is involved, so that the withdrawal of a concession may only feed through as additional tax revenue when payment is due, which may be in a following tax year, and (b) there could be implications for other parts of the tax system, such as where the removal of a concession on income averaging could lead to farmers falling below thresholds for social security contributions in a majority of years, with a net reduction in overall government revenues.

38. A distinction should also be drawn between tax expenditures and the value of the benefits these bring to the taxed units (farmers and landowners). A parallel exists in the cost to the public budget of mechanisms to support farmers’ incomes (such as the cost of intervention buying and disposal on the world market using export subsidies) and the net increase in those incomes. The transfer efficiency of the economic aggregate may be low, as adjustments in markets (especially for inputs) may pass benefit to other economic agents. Furthermore, there are distributional implications. With support given through commodity markets the distribution of benefit is often less than ideal, in that benefit will follow volume of production rather than income need. With tax concessions, there is the rather obvious distributional implication that direct benefit only goes to those units that would otherwise pay the tax at non-differentiated rates. Again, in a progressive income tax system, concessions will tend to go to those with the highest incomes. Reduced taxes on fuel will benefit most those types of farming that use relatively large amounts.

39. One approach to evaluating the benefits associated with tax concessions is to express them in terms of their “outlay equivalents”. This can be thought of as the budgetary cost of a programme involving direct spending that would provide taxpayers with net benefits that equal what they are now receiving from a tax expenditure. In the US, the Treasury Department presents estimates of outlay equivalents of tax concessions in the President’s budget, in addition to the conventional calculations, (JCT 2003). In the present context, there is attraction in evaluating tax concessions on this basis, as this would make them more compatible with the costs of other forms of support currently in the OECD’s estimates of PSEs. However, the complexity of tax concessions to agriculture suggest that the calculation of the budgetary cost of alternatives could be a highly complex and contentious process, especially where the purpose of concessions is to achieve specific physical objectives. Calculations might be made of the amount of direct payments needed to achieve the same effect on net income as the present concession, though this would not be uncontroversial in its technical details, might incur administration and other transactions costs that could impact on the budget, and could meet political resistance because of the transparency of the distribution of benefit.

40. The above points, taken together with the wide variation in tax regimes and forms of concession, suggest that it is important to be able to take a broad overall perspective when studying the level of agricultural taxation (that is, embracing a wide tax base, covering all the forms to which farmers are subject — on income, current taxes on capital, capital gains, capital transfers, etc.). There will still be the problem of deciding on the counterfactual, including which group in society to choose as a comparator (other small business operators and businesses, or the national picture) and technical difficulties of obtaining information

### **3. Typology of Concessions (+ and -)**

41. Following the consideration of some conceptual points, this section looks in more detail at the sorts of differential treatments for agriculture that are found in practice. It is not the purpose here to carry out estimations of the associated tax expenditures. Rather, this study simply notes where such estimates exist, typically as part of official information systems. However, it will become apparent that these are not encountered often, reflecting the sensitive nature of concessions, both within countries and internationally. The OECD (PSE database) has estimates relating to seven countries (Australia, Canada, Czech Republic, Hungary, Norway, Slovakia and the United States) but these do not appear to be comprehensive (for example, only two of the six known concessions in the USA have been evaluated for PSE purposes, though alternative estimates from the Joint Committee on Taxation (JCT) cover eight forms of tax expenditure specific to agriculture). These JCT *Estimates of Federal Tax Expenditures* have been published almost annually since 1972 (but with no report appearing in 1974 and 2000). Estimates are also regularly made by the US Treasury. Australia provides another example of a country in which there is an annual estimation of the value of concessions to agriculture, published by the Department of Treasury as a Tax Expenditure Statement. In this section, the emphasis is on identification of concessions rather than on their quantification in terms of tax expenditures.

#### **3.1 Preferential treatment in taxes on income, profits and capital gains**

42. Concessions given to agriculture on income, profits and capital gains will reflect the underlying institutional structure of the industry and the various tax regimes that apply to each type of business. Agriculture is not a disembodied activity but is carried out by real units that have legal status. In most OECD countries the most numerous institutional unit is the household firm (unincorporated business) arranged as a sole-proprietorship or partnership. The legal entity is the individual or group of individuals. These are subject to personal taxation, and their incomes will be subject to income tax. However, some family-operated businesses are constituted as companies (corporations) that may be wholly owned by members of a single family or household or, less frequently, part owned by others. The profits of these

small-scale companies will be taxed under a separate regime, while the payments made to operators as wages and salaries and to owners of equity in the form of interest and dividends will be then subject to personal taxation. The choice between being organised as a (unincorporated) partnership or a (family owned) company is likely to reflect the marginal rates of taxation and other tax rules, the aim being to minimise the tax burden within parameters set by other constraints (such as a desire to spread ownership between family members or as a risk-coping strategy). The ability to make this choice is, in its way, a form of tax concession, though this is not specific to farmers and thus not of particular concern here.

43. Other institutions may also be found in farming that have their own legal status, such as the co-operative, the charity and the (public) company, each of which may be subject to separate taxation regimes. In countries of central and eastern Europe large-scale farms with their own legal status may be important to the total volume of output, but there is currently some fluidity between corporate status and other forms, such as co-operatives. Some concessions offered to unincorporated businesses (such as tax averaging) may not be available to companies.

44. Capital gains may be taxed together with income or subject to separate treatment, depending more on the national convention than on any special treatment of agriculture. However, the valuations applied in the calculation of gains may incorporate special systems for land in agricultural (and forestry) use (that produces values below market prices) and there may be special treatment of gains for farmers who retire or pass their land to younger family members. For presentational purposes in this study, taxes on capital gains are treated together with other taxes on property (see below).

45. A review of information already gathered suggests that concessions come in the following main forms:

- Specific taxation regimes applied to the personal incomes of farmers and closely related occupational groups, which may further be broken down into:
  - Waivers on the need to keep accounts and to be taxed on an actual income basis, such a simplified accounting system or the use of standard ('notional') incomes.
  - Other concessions, such as the opportunity to keep accounts on a cash basis rather than an accrual basis, or the freedom to switch between the two, each of which implies a material gain.
- Allowing income averaging or similar smoothing mechanisms (such as being allowed to vary rates of capital consumption).
- Special rates applied to incomes of farmers, or special allowances that affect the way that the general system applies to them.
- Special treatment of income in kind (deliberate under-valuation, such as typifies the value imputed to the value of services provided by the farm house or food produced on the farm and consumed in the same household).
- Special treatment of capital consumption estimation (depreciation) in calculating income, in particular accelerated rates of write-off.
- Specific taxation regimes related to activities (as opposed to the nature of the institutional units that carry them out). These include:
  - Agricultural activities (such as deeming revenues from government for certain environmental practices to be tax-exempt).
  - Forestry activities on farms (such as excluding both revenues and costs from accounting systems designed to calculate taxable income, and reflecting the long-term nature of tree-growing and timber production).

- Specific rates applied to capital gains so that they are not subject to income tax but to a separate gains tax which may be lower, or special valuations of assets or special thresholds at which tax starts to operate. These can apply to:
  - Agricultural assets.
  - Forestry assets.
- Specific taxation regimes applied to agricultural companies and similar institutions with legal status.

### **3.2 *Preferential treatment in social security contributions***

48. Social security contributions are a mixture of a tax, duty and insurance. However, in their impact on the disposable income of those individuals these non-optional deductions act as *quasi* taxes. Two main types of concession apply here:

- Concessions in contributions made by self-employed farmers in relation to themselves and their families.
- Concession in contributions made by self-employed farmers in relation to their employees (basically, a cost-reducing measure).

49. However, these concessions only present half the picture, as they do not take account of special benefits that farmers may receive or any differential in the way that governments support systems that are not self-financing, or a bias towards any specific agricultural components. While explicitly agricultural social benefits will usually be transparent and better documented, they have been noted here as adjuncts to any concessions on the contributions side.

### **3.3 *Preferential treatment in taxes on payroll and workforce which concern farm operators as employers***

50. In light of the finding by NILF (2002) that this form of tax was not encountered in the countries it studied, it is tempting to dismiss concessions from consideration. However, countries in transition to market economies in Central and Eastern Europe have an agricultural structure rather different from that of older OECD countries. Large-scale agricultural units operated exclusively with hired labour (though some may be shareholders or co-operative members) are a feature of many of these countries. The possibility of concessions on payroll and workforce taxes for these large units should be allowed for in any comprehensive review

### **3.4 *Preferential treatment in taxes on property***

51. Concessions in taxes on property are a major feature of agriculture and forestry. These taxes can be of three main forms:

- Annual, such as those based on the actual or deemed value of real estate.
- Those applied at transfer by sale, gift or death, which can be further divided into
  - those based on the value of the property, such as an inheritance tax or stamp tax on the documents required for the transactions, and
  - those based on capital gain, which may be treated as a form of income and taxed as such or subject to a special gains tax (this has been mentioned above).

52. One of the explanations often given for the existence of concessions on property taxes is the relatively large amounts of equity held by owners of farm land.<sup>8</sup> Other businesses of comparable size in terms of workforce, sales or value added are likely to have much lower levels of real estate values. Studies of the relative wealth of the households of farm operators almost always find that they fall into groups with the highest levels of net worth, and higher in the national distribution than their incomes would place them. Most of the explanation lies with the land that these households own; the equity position of tenant farmers is likely to be far less favourable. Capital taxes have, in practice, a disproportionate impact on agricultural (and forestry) households.

53. In part concessions can be viewed as a way of ameliorating this disproportionate effect. Though land prices reflect the profitability of farming, support to production being capitalised into land prices, this is only one of many causal factors. In particular, capital concessions in agriculture attract funds from other investors and thus raise land prices. Nevertheless the economic status of farm families and their ability to receive rewards (in the longer term) as capital gain are determined by actual prices.

54. Concessions are sometimes given to achieve policy goals other than income support, or for which the effect on incomes is secondary. For example, concessions on capital gains or on stamp duty may be offered as an incentive to encourage elderly farmers to retire and to make their land available to younger operators. There are undoubted lifetime income implications of such concessions, but the immediate aim may be to improve the structure of the industry and its productivity.

55. The issue of what constitutes a tax concession and how it may be valued is probably at its most problematic in this area of taxation. A review of countries suggests that the following categories of concession are important.

- On the rates applied in (annual) property taxes to agricultural and forestry assets (mainly real estate).
- On the value of the real estate to calculate tax liability for (annual) property taxes.
- On taxes applied at transfer by gift or inheritance that is specific to agriculture, including exemptions or lowered valuations of agricultural property; sometimes special rules apply to transfers within families.
- On taxes payable on sale (such as Stamp Duty).
- On capital gains, especially where these arise from development to non-agricultural uses (such as for housing).

### 3.5 *Preferential treatment in taxes on goods and services – such as sales tax and Value Added Tax (VAT)*

56. Taxes on goods and services can be classed into three main forms

- Taxes on outputs.
- Taxes on inputs, of which
  - Variable inputs.
  - Fixed inputs.
- Taxes on Value Added (VAT).

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8. This issue is a larger version of the same situation concerning the valuation of food produced on the farm and consumed in the farm household.

57. Pure taxes on output are not common. Whether concessionary rates represent a concession to agriculture will depend on the incidence of the tax, which in turn reflects the price elasticity of demand of the goods and services concerned. With completely inelastic demand, the imposition of a tax will simply change the price the producer receives by the amount of the tax, implying a zero change in producer price. Under less extreme circumstances a reduction in a tax on output will increase the net price received by the farmer.

58. More common are taxes on inputs, on which concessions represent a cost-reduction. These fall into two categories: concessions on variable inputs and on fixed inputs. Typical of the former are concessions on the duty applied to fuel that is used by agricultural vehicles and in heating glasshouses. These can be seen as ways of raising revenue (when they are often called duties), but are also a tool to reduce energy consumption and thus meet environmental objectives. Lower producer costs resulting from special concessions to agriculture will have some anticipated impact on factor use and, as a result, output.

59. Taxes on pesticides and fertilizer are noted in this study where they occur, but it is doubtful whether they can be regarded as imposing a specific disadvantage on farmers, though agriculture is clearly the main user, sometimes the sole one.

60. Tax concessions on fixed factors are also problematic. Concessions on labour costs in the form of special rates of social insurance contributions have been dealt with above. The main issue here relates to annual taxes on land as a business asset (in contrast to land as a form of personal wealth). Business assets are often taxed by government, the issue here being whether agricultural land is treated in a parallel manner to other assets. In some countries (*e.g.* the UK) agricultural land and related buildings (which includes part of the dwelling) are exempt from local business taxes; however, the imposition of 'normal' rates of tax would represent such a large change in costs that, because of the high capital values involved, farm production would become uneconomic. The issue becomes whether the 'normal' state is to regard agricultural land as a special case, so that non-taxation is not regarded as a concession.

61. There are a small number of cases in which taxes apply only to land that is not farmed. These taxes constitute an incentive to farm or lease land that might otherwise be left idle and that, indeed, is their purpose.

62. Turning to VAT, the commonly-found special treatment of agricultural and forestry goods and services (outputs) clearly alters relative market prices, and is a straightforward concession, although not one that necessarily accrues to farmers, although there may be an indirect effect by shifting demand. A situation is commonly found in which agricultural outputs are zero rated (or have concessionary rates) so that farmers can reclaim VAT on inputs, which thus appears as a form of income; any benefit of this sort will be subject to taxes on income. However, the system may include simplifications as far as agriculture is concerned and, as a consequence, over- (under-) compensation to producers may result that is a form of income support. In reviewing VAT for this study, differential rates applied to agricultural products have been disregarded. Concessions have been recorded only where there is a clear possibility of a preferential impact on the income of farmers, such as over-compensation (Ireland) or where farmers are given more time to pay the tax due (Norway). However, a much fuller description and discussion of VAT regimes and their possible effects is included as Annex 2 to this report.

### **3.6 *Preferential treatment in other taxes***

63. Given the heterogeneity of national taxation systems, the OECD (1993) classification scheme (which was the basis for the NILF (2002) work) allows for a "miscellaneous" category. In practice, the categories used above contain almost all the concessions encountered, with only a few not readily

classified elsewhere. Examples include taxes on output and on waste. Details are best treated on a country-by-country basis.

#### 4. Overview of Concessions by Country and Type of Taxation

64. The international pattern of tax concessions to farmers can be best approached by means of a summary table that indicates the main features found in each country. This is given in Table 1 and is further elaborated in tabulations of treatments by type of concession and country, given in Tables 2.1 to 2.6. These also contain official estimates of tax expenditures, where available. A more detailed country-by-country description appears in the Annex. Countries are arranged alphabetically (in English).

65. The evidence base for this work is (a) the NILF (2002) report that, in turn, drew on a number of studies listed in its bibliography, of which Parsche *et al.* (2000) was major, (b) other documents including internal OECD briefing notes for some countries prepared from published material and government websites, estimates that appear in the OECD PSE database (for seven countries), notes on taxation by Anderson in NILF (2004),<sup>9</sup> and *ad hoc* information gathered in Hill (2000) and (c) comments and additional material provided by OECD member countries.

66. It is obvious that this over-view is still only a partial picture, in that the basic information used to draw it up has important gaps. For some countries only small amounts of anecdotal information are available. The account of concessions can only be considered comprehensive in a small number of cases. Even amongst these, calculation of the worth of the concessions identified is only partial, tending not to go beyond the concessions available on current income and fuel tax rebates/reductions. Where figures are available, the methodologies behind the calculations are rarely provided, so the results may be non-comparable and so should be treated with caution. Thus, there is need for further information gathering, preferably on the basis of an agreed and exhaustive list of concessions and using a common methodology.

67. Within agriculture there is often a lack of distinction between the tax situation of a farmer as an operator of an agricultural business and his role as an owner of agricultural real estate. Concessions offered to farmers are not necessarily available to non-farming landlords. This area needs further investigation.

68. Nonetheless, some general observations are possible. While an overall impression can be taken from Table 1, this should be read in conjunction with the following tables for each of the major types of concession (Table 2.1 to 2.6) and Annex I that describes concessions for each country.

69. First, at the most general level, it is obvious that concessions are widespread in agriculture even though information is incomplete. Concessions relate to the taxation of incomes, of property (both annual taxes, taxes on capital gains, and on transfers of assets) and inputs. In a substantial number of countries (and six of the EU Member States for which information has been provided) farmers' personal incomes (their profits of unincorporated businesses and other incomes where appropriate) are taxed using a special system of assessment. Typically this is based on standards rather than accounts, though a simplified version of the latter is also a special possibility. Whilst often assumed to represent a preferential treatment for the sector as a whole, empirical evidence from France suggests that this may not be the case for all sizes and types of farm or types of operator. A case is sometimes made that a shift from a standards-based system to one based on book-keeping would greatly increase the burden in terms of costs to the individual farmers and to the public sector in processing their returns. This is particularly valid where, as is common, the special system is only available to low income farmers. The additional costs to the taxation authorities might not compare favourably with the additional tax revenue collected, and there could be significant political opposition. This argument is weakened, however, by the fact that households reporting low farm

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9. See note by Finn Anderson, 'Farm Taxation in Different Countries' in NILF (2004), pp.25-26.

income increasingly report other income sources and are, as a result, already integrated into the appropriate tax systems.

70. Even in countries where normal assessment systems apply to farmers, special facilities are often offered to them, most commonly averaging over a short run of years. This may not be exclusive to agriculture (usually the facility is restricted to a small number of occupations, though in the Netherlands it is open to all sectors), although in most countries it is likely that the numbers making use of averaging will be dominated by farmers.

71. Special treatment of farming companies is less frequently encountered, and sometimes facilities available to operators of sole-proprietorships and partnerships are not extended to company farms. In part this may reflect the small numerical importance of company farms in the structure of agriculture in almost all the countries for which information is to hand. However, some examples of preferential treatment of agricultural companies can be found (including of co-operatives).

72. Several countries have special arrangements for social security contributions in agriculture. However, deciding whether these constitute concessions is difficult because the social security system for farmers is typically run separately from that for the rest of the population. Government contributions are common, so that the contributions do not fully fund the benefits. But it is difficult to establish whether this constitutes a preferential treatment, given that government funding may also appear in the main system and that other sector-specific schemes may exist and also be in deficit. Special benefits available to farmers within a general system of benefits are, on the other hand, clearly concessionary.

73. Capital gains are sometimes assessed within the income taxation system and sometimes by a special tax. Though concessions on agricultural property have been found, it is suspected that the basic information sources are particularly incomplete on this form of taxation.

74. Special treatment of agricultural property for taxation on transfer (inheritance and gift taxes, or stamp duty on the transaction documents) is common, especially when these involve passing agricultural property between generations. Sometimes the concessions are shared with those on other business assets, and examples are encountered where the preferential system formerly offered only to agriculture has been extended over time to cover other businesses. The relatively high wealth position of farm households, and the fact that much of this is in the form of agricultural land and buildings, makes this *de facto* an important concession for agriculture.

75. Almost universally agriculture receives concessions on annual property taxes. These are often the preserve of regional or local government, so the national pictures may be complex with considerable variation within countries. Concessions may take the form of exemption for agricultural land and buildings (though perhaps not for the farm dwelling), special valuations that give a figure lower than market price and below that on which assessments of other types of business are based, or lower rates or special starting thresholds.

76. Very common too are special treatments of taxes on inputs that, in effect, reduce the costs of agricultural production and benefit incomes. Mostly these take the form of concessions on duties on fuel used for farming purposes (such as for tractors and occasionally for heating). It is suspected that concessions on vehicle licences are more frequent than is reported here.

77. The situation of VAT and similar taxes applied to agriculture is complex. A few examples have been found in which agricultural businesses are given explicit concessions in meeting their payment obligations (such as longer times to pay VAT). However, other ways in which preferential treatment might be occurring have been noted but are not entered in Table 1. Thus, it is known that the simplified system of VAT and its associated direct payment that is available to some EU farm businesses can result in over-compensation, which might be considered as a preferential treatment; this is noted in the tables below.

Under the conventional system there is a tax revenue implication where output is zero-rated. This facility is not treated as a concession to agriculture in the present study although some tax revenue is certainly foregone. A departure from the “normal” VAT system is clear, but the benefit may not accrue to the farmer. Consumers are likely to be the main beneficiaries of this type of concession (Annex 2).

78. A system that applies a special output VAT does not change the fact that all (VAT registered) firms must pay VAT on inputs bought from other registered firms. It is not unusual to find situations in which small firms, previously operating outside the VAT system see an improvement in their incomes when they first register for VAT. This can happen because they can then claim VAT back on inputs, assuming that their need in turn to charge VAT on output does not cause a disproportionate drop in sales and revenues. This gain can act as an incentive to register in situations where this is optional (typically in a size band below that at which VAT registration is compulsory). Of course, in countries where agriculture is zero-rated there would be no change in output prices, so registration would bring an unequivocal benefit (though the additional administrative burden on the firm would need also to be considered). However, a benefit from becoming registered for VAT is something that could be experienced by businesses in general, not just agricultural firms, so the presence of a differential treatment of farming would be difficult to establish. The issue of VAT and its potential for providing benefits (and dis-benefits) to agricultural producers merits further investigation.

79. Calculation of the value of concessions (tax expenditures) occurs in a number of OECD countries. However, there are many where there is no commitment to regular reporting or calculation. Among the categories of tax, calculation is most common with fuel tax concessions; six of the seven countries reporting any tax concession to the OECD’s PSE database include this item. Property tax concessions are only reported by one country (perhaps two), and concessions on income tax by five. Thus, there are many gaps.

## **5. Policy implications of the findings**

80. Finally, this paper considers the policy implications of the findings. This involves a general assessment of the measures encountered with respect to *(i)* their potential to distort production and *(ii)* their potential to contribute to solving problems in the agricultural sector (variability, income levels, structural problems, etc.) in ways that are minimally or non-production and trade distorting.

81. A first observation is that special treatment of agriculture is commonplace and pervades the systems of taxation of income, property and asset transfer. Preferential rates of duty on fuel used in producing farm commodities are almost universal, and there are other frequently found sectoral exceptions (including VAT and social security funding). These special treatments hitherto have been very poorly identified and documented and remain very largely unquantified either in terms of tax expenditures, revenues forgone or the value of the benefits enjoyed by the units in receipt of them (households of farm operators, landowners and companies). Where systems exist to monitor the level of agricultural support but fail to cover tax concessions, either because of design or (as in PSEs) through incomplete supply of data, they are in danger of understating the real amount. Though not all forms of concession may be deemed relevant to be included in measurement of support (depending on circumstances), the probable seriousness of their omission deserves further investigation. This would be in line with the OECD ‘best practice’ guideline for the general reporting of tax expenditures (OECD 2004). The problem of identifying what could be and could not be considered as a support (as opposed to an incentive to particular forms of action) has already been discussed (Section 3 above).

82. Turning to quantification, the ease with which estimates of tax expenditures can be made varies widely, heavily depending on the existence of a “normal” or benchmark regime against which the treatment of agriculture can be compared. Perhaps the most straightforward example is the tax expenditure associated with a reduced rate of duty on fuel used in agriculture, which, in the present methodology,

assumes that usage does not change. For reasons already explained, a reduction in costs of a single input does not turn into a benefit to the incomes of farmers of the same magnitude. Nevertheless, the *prima facie* tax expenditure estimate may be accepted as a pragmatic indicator of support to this industry because of the transparency with which the calculation can be made. Fuel tax concessions account for a major share of the relatively few tax concessions that are currently estimated by national authorities (Table 2.6).

83. A third observation is the longevity and durability of concessions, which reflect the difficulty of eroding the economic rents that they generate and the political influence of the beneficiaries of enhanced incomes or raised asset values. Anecdotal evidence suggests that the original economic rationale for providing a concession to agriculture may be less important to explaining its continuing existence than may be political pressures and practicality. Each tax and each concession probably forms a special case, needing a historical perspective.<sup>10</sup> As noted elsewhere, knowledge of the historical context of special treatments is important to understanding them, though this study has not been able to cover this.

84. Lowered fuel duty dates back (in the UK at least) to the Second World War and its following decade in which there was a need to stimulate farm output. It is not clear whether this explanation applies equally in the many other countries that offer similar fuel concessions, or whether the case was made on the grounds of maintaining international parity and possible lack of international competitiveness if countries did not match this form of subsidy. Whatever the logic for first introducing this tax concession by single countries, the fundamental aim has now evaporated and it is hard to find good reason for maintaining it as a feature of support to agriculture in OECD countries. Furthermore, other government policies now attempt to reduce the subsidised use of energy in order to achieve environmental benefits, and fuel tax concessions clearly conflict with them. The general difficulty of withdrawing tax concessions points to the desirability of planning for termination (or succession) of the concession at the outset by applying time limits or making other provisions for phasing it out (such as linking it to the achievement of given targets or to certain economic conditions, such as large falls in income).

85. Fourth, practice issues can be significant. Where special systems for taxing incomes in agriculture exist (mostly assessment based on land area), they appear to be a remnant from a time when taxation on an actual income basis was rare in the economy and book-keeping in agriculture an exception. With time most countries have moved towards putting the taxation of income and profits for farmers on the same basis as for other self-employed people. Of course, where an existing system confers an income

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10 Estate Duty was introduced in the UK in 1894 to be charged on property passing, or deemed to pass, on death. It was agreed at the outset that the value of agricultural land should not be more than 25 times the net rental and could be paid in instalments of up to eight years. After 1919, when the rates of duty were increased generally, those on agricultural land and buildings were not raised. In 1949 the system was introduced in which the duty was levied at 55% of the tax rate which would otherwise be payable, a concession to small businesses generally in 1954. Estate Duty has now been replaced by Inheritance Tax. Landowners claimed that this tax threatened their traditional role as providers of housing in rural areas, with possible expensive consequences for the budgets of local authorities that would then become responsible for providing accommodation. This case was perhaps given greater weight by the fact that landowners were disproportionately represented in the legislature. The concession proved attractive to potential landowners and was in part responsible for increased land values and greater wealth for existing landowners, results that ran counter to the intention for the tax. The passage of time has seen the concession extended to other business assets, so that there is now no particular advantage to farmland to the modern version of the tax (which is now on inheritance). This gradual broadening of concession first reserved for agriculture to other groups has been seen in a number of examples in the UK, suggesting that this is an easier response to criticism that the system is unfair than would be the removal of the concession to agriculture. Concessions for the annual taxing of agricultural business property and capital gains in the UK have similar histories, although UK farmland (and associated buildings) is still exempt from any annual property tax (business rates). (Clayton *et al.* 1967)

advantage to significant numbers of farmers, they are likely to oppose being taxed on actual incomes. A system similar to the present French *forfait* applied, for example, in the UK before the second World War, when farmers were encouraged to adopt book-keeping by the government progressively raising the (per acre) flat rate tax. Substantially raised income in agriculture resulting from public support highlighted the extent of the tax expenditure implied by the flat-rate tax system.

### 5.1. *The influence of tax concessions on production*

86. Production could be affected to various degrees by different types of tax concession. That is, they could be regarded as showing differing degrees of “coupling” to the decisions of how much to produce. Tax concessions that alter the prices of inputs to the production of agricultural commodities relative to those paid by other users could be expected to change the pattern of output. For example, lowering fuel taxes could *ceteris paribus* increase fuel usage and the production of agricultural goods and services, including not only market output but also non-market environmental goods and bads (joint products). The magnitude of this relationship could reflect a number of factors, including the marginal physical product of fuel when applied to the fixed factors of production, the share that fuel costs represent in the total, the possibility of factor substitution, the elasticity of supply of fuel and of complementary inputs, the affect on market prices of the increased output, etc. Tax concessions that affect the price received for output, such as lowering the level of VAT on domestic agricultural products, could encourage the expansion of output of the affected commodities though increasing the quantity demanded. The elasticity of supply in the longer run is usually found to be greater than in the short run, as more of the so-called fixed factors can be allocated<sup>11</sup>.

87. In contrast, taxes that are based on the residual rewards from production or on fixed factors (notably land) are far less likely to impact on production in the short run. For example, concessions on income tax or on annual business property taxes will not disturb the relationship between the marginal factor cost and marginal value product of variable inputs (or marginal costs and marginal revenues of output). There could be indirect and longer term affects. For example, entrepreneurial labour or land may be retained in the industry by taxation concessions that make rewards from agricultural appear relatively more attractive, which will have a bearing on output. Forms of income that are treated favourably or escape assessment (such as the ability to consume own-production of food and fuel, or to treat part of the domestic house as a business asset that may qualify for exemption) will bear on decisions of farmers to stay in the industry or act as incentives to new entrants (who, on small farms, may see these perquisites as a major reason for buying a farm if they already have substantial incomes from other sources). Lowered costs of social security contributions for farmers will have a similar affect, and reduced employer contributions for hired workers will retain more labour in the industry. Income averaging could enable more risky production to be undertaken.

88. Empirical work (reported in Hill 2000) suggests that concessions on capital gains have a bearing on farmers’ retirement planning, with gains being used to finance retirement and take advantage of rates that are typically lower than on current income (though in some countries short-term gains are subject to income tax). Cases are known where purchases of farm real estate have taken place to obtain the concessions on agricultural property as part of inheritance tax planning. These and other reactions to tax concessions will have an impact on the size of the industry and which fixed factors constitute it. The affect on output is not necessarily to expand it. For example, if the concessions retain relatively old and low-productivity farmers in agriculture, or attract new entrants who regard their farms as primarily hobby or lifestyle units, the net impact might be to keep output lower than might occur if the land were taken over by more technically proficient and profit-orientated operators.

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11. An OECD (2001) publication reported model results that classed variable input subsidies as the most distorting of the measures analysed, followed by price support or output subsidies.

## 5.2 *Potential policy use of tax concessions*

89. One aim of this study was to examine the potential for preferential tax concessions to contribute to solving problems in the agricultural sector (variability, income levels, structural problems, etc.) in ways that are minimally or non-production and trade distorting. Perhaps bizarrely in view of this aim, the goal of Surrey in his early work on tax expenditures in the US Treasury was to draw attention to these items in the hope of building momentum for tax reforms which would redirect the tax system toward its core function of raising revenue (Burman, 2003). Nevertheless, the ability of tax concessions to form tools of policy is indisputable. When taxation systems exist, they form an infrastructure that can be used in the delivery of certain policy programmes, and to ignore them would be to exclude the possibility of adding value to what is often an expensive part of the information system, both in terms of the public cost of maintaining data records and verifying their quality and in terms of the amount of effort and expense required by the taxed unit (individual, couple, if this is the basis of taxation, and the firm). The issue is in which circumstances their use is particularly appropriate and where, conversely, they are best avoided.

90. Examining the rationale behind the present array of concessions would have been helpful in tackling this task. This is an area of work that could be taken further. As noted above, an impression from reading the documentation so far available is that in several cases the original policy purpose for introducing the special treatment of agriculture has long been overtaken by events, though the benefits that it has created mean that there could be political difficulties in dismantling it.

91. At a general level there may be good reasons for the use of the tax system as an instrument of policy but also reasons for not doing so (after OECD 2004). As a way of providing subsidies and transfers:

- It precludes unnecessary transfers of resources, which diminishes administration costs
- It diminishes the incentives for tax evasion
- The tax authority has unique expertise in the administration of transfers and subsidies and unique information about characteristics of households and businesses which may be relevant, such as address, income, household composition and nationality
- Specifically with respect to agriculture the tax system has the unique ability to address household income issues, an important factor given the growing importance of non-agricultural income in the total income of households that farm throughout the OECD.
- Concentration of the administration of subsidy and transfer entitlements in the tax office leads to economies of scale.

On the other hand:

- Tax concessions only apply where tax would otherwise be due, which might leave out many intended beneficiaries
- Where negative tax liabilities arise, they may be difficult to administer
- Potential overloading of the administrative mechanism that may detract from its primary role of revenue raising.
- Tax concessions may increase tax avoidance if attempts are made to classify high-taxed assets as low-taxed assets

92. In a general context, on balance the OECD recommends that tax expenditures should only be used for entitlements that are relatively stable and predictable, not for programmes with administrative discretion in providing subsidies or showing volatility.

93. Attention here will focus on the potential for addressing the problems at which agricultural policies are aimed. Whether a tax allowance or another form of financial inducement (such as a subsidy payment to undertake certain actions) is employed will depend on a range of (mainly technical) factors that affect the efficiency, effectiveness, and cost of policy implementation and associated equity and political issues. These include *inter alia*:

- The budgetary implications (the magnitude of revenue forgone in relation to the budgetary cost of alternative delivery mechanisms, put in the context of political pressure to contain public spending).
- Implementation costs (the transactions costs facing both the farmer and the system of public administration).
- The balance between tax revenue forgone and the benefit provided.
- Administrative feasibility (registers of people deriving income from agricultural production may be incomplete where they are not required to submit accounts for tax assessment).
- The characteristics of the target group (low income farmers will not be influenced by concessions on progressive incomes taxes that they do not pay).
- Fairness in terms of the benefits extended intentionally or unintentionally to people in agriculture in relation to others in society.

94. The use of concessions implies that agriculture falls within the normal taxation regime, and that concessions can be seen against how individuals and firms in other industries are treated. However, this is not always the case, most notably with respect to income. The *forfait* system of income taxation (where estimated standard taxes are imposed, typically per hectare, rather than taxes being based on accounting income) is in operation for at least part of the agricultural community in Germany, France, Italy and Spain (and probably elsewhere in the EU). Such a separate, non-progressive system may raise issues of equity (both between farmers and with the rest of society, and among farmers) and of economic efficiency. However, any proposal to shift to a conventional book-keeping based system has to face questions about transactions costs, administrative feasibility and political sensitivity.

95. The role of special tax treatments in encouraging certain types of investment or management practices has been touched on earlier. Special depreciation allowances can be given for capital items that reduce pollution, or subsidies for undertaking land operations that enhance the environment can be declared to be tax exempt income. However, these are treatments that are designed primarily to achieve specific responses in return, though there may be income implications. A role clearly exists for special tax treatments as instruments in achieving aims for the environment, animal welfare, food safety and a number of similar issues where there is a requirement to steer or modify the behaviour of institutional units. They are thus not concessions in the sense that an unrequited benefit is provided to farmers and landowners but, nonetheless, give rise to tax expenditures as commonly defined.

97. Among the major strands of agricultural policy, the most enduring and perhaps the most fundamental is the attempt to deal with the “income problem”. There are various components of this, but the principle ones are income instability and low incomes and associated poverty (for a review of both policy objectives and perceptions of the income problem, see Hill (2000) and OECD 2003 (*Farm Household Income; Issues and Policy Responses*). Public support for agriculture directed at the income problem has largely been in the form of raising market prices for farm commodities or, more recently, direct payments that are linked in some way to past patterns of production and land use. This support will impact on both income variability and level of reward, though in ways that may not be efficient at providing short-term relief or of tackling the fundamental causes of the problems.

5.2.1 *Income variability over time*

98. Variability of income over time is an inherent problem of agriculture in all countries. Instability can be demonstrated in the reward coming from producing agricultural commodities at both aggregate and farm levels. It is well established empirically that income from non-farm sources is a stabilising factor when incomes are measured at the household level (see, for example, the results for Germany in Eurostat 2002). A characteristic of accounting systems is that they almost universally adopt the single year as the period for measurement, though the twelve months covered need not necessarily start in January (a factor that often makes difficult the combining of different data). Yet there is nothing fundamental in this choice, and a case could be made that a longer period would be appropriate, if not for farmers as taxed units, then for the income that they derive from farming. There is empirical evidence (Hegrenes, Hill and Lien 2001) that a three-year average captures most of the short-term random variation experienced in agriculture without excessive confusion with longer-term influences such as results from structural change. This argument applies whether income is measured on an accrual basis or on a cash basis, though it might be expected that averaging would be particularly applicable where cash accounting was in use.

99. It can sometimes be found that, in systems that tax incomes one year in arrears and where fluctuation tend to be biennial, the payment of taxes on high income years can fall due in years when incomes are lower, so that the fluctuation in post-tax disposable income can be amplified (see Eurostat 2002). Income averaging over a short run of years would help overcome this problem.

100. The number of farm households shown to persistently suffer from low incomes (the “core” of poverty) is much smaller than that of farms where income is low in individual years. From the standpoint of policy analysis, income averaging over something like three years can therefore be supported, but it is clearly not a solution where low income is persistent.

101. It is worth noting that mechanisms that tackle income stability by smoothing disposable income can avoid effects on production that result from trying to insure yields only or guarantee prices of individual commodities or both. In other words, smoothing income after fluctuations in all its components have been netted out has a direct impact on the variable that is the main indicator of policy concern and provides a less production distorting approach.

102. A good case can be therefore be made for using concessions on income averaging when taxing agriculture. In systems where income tax is levied on the basis of accounted profit/income, the additional administrative burden on both the farmer and the taxation authorities is minimal. How effective the system is at avoiding the problems posed by fluctuating income (such as high vulnerability in low income years, poorly appraised investment decisions, etc.) depends on a number of factors, including the timing of when tax payments become due and whether some form of non-taxed income reserve can be built up, to be drawn upon in low income years. On equity grounds a system of taxation that took into consideration the natural characteristics of this industry might seem to be more fair, as long as similar provisions were available to other groups with lumpy incomes (such as writers).

103. Eight examples of countries where farmers are taxed on a book-keeping basis have been found in which the tax system provides various mechanisms to stabilise incomes and the liability to taxation, although not all of these are exclusive to agriculture (forestry and fishing may be covered, or other occupations such as writers). The rationales for these concessions are not easily detected at this distance, nor are any practical problems of implementation, though the country chapters suggest that income stabilisation is central. A few countries have estimated the tax expenditure implied (Australia, France, USA, with an indicative figure for New Zealand), though the methodologies behind the calculations have not been explained in detail.

104. Of course, a concession to agriculture that allows income averaging would only be effective at bringing income stabilisation benefits in situations in which there is a liability to pay tax, and might therefore be inappropriate for use where income variation among low income farmers is a main concern. There would also have to be a debate about whether the smoothing only applies to the income from agriculture (as operates in some countries) or the complete income of households and companies deemed to be agricultural. The latter might be easier, not requiring a breakdown of income at case level into its various components, which might prove to be technically difficult as some costs (such as interest payments) relate to the institutional unit, not the activity. There might be also a problem of establishing which tax units are really agricultural.

105. Before leaving the issue of income fluctuations it should be remembered that the use of a flat rate *forfait* system offers the opportunity to estimate income (and thus the sums charged) over a run of years. However, the imposition of a single flat charge will make the percentage variation in (post-tax) disposable income greater than that of untaxed income.

### 5.2.2 *Level of income*

106. Turning to the level of income as an agricultural objective, especially poverty among farmers and their families, a few cases are found where there are uses of the tax system based on book-keeping to change the level of post-tax income. Table 2.1 contains situations in which explicit special tax allowances (Germany) or rates (Slovakia, Japan) are (or were) applied, the effect of which is to increase disposable income. Situations in which there are or were special treatments under income tax of specially targeted groups within agriculture, such as new entrants and/or retiring farmers, are also found (France, Ireland, Slovakia). These raise the question of whether the support under concessions to income tax really goes to the farmers who the policymakers see as being at the centre of the problems they are trying to ameliorate (again, no benefit would arise if no tax were liable, which would probably mean that the lowest income farmers would be missed). There are examples of some forms of income being declared tax free, and also of situations in which inputs are subject to a lower rate of tax or are exempt, providing a boost to income. The *forfait* system of taxation, where applied in place of a general national system, is sometimes assumed to be to the financial advantage of the sector, but empirical work has shown that there can be both gainers and (probably) losers in terms of the level of income (see section on France in Annex 1).

107. It is generally agreed that a system that identified low incomes in agriculture and targeted support at these households would be more transfer-efficient than the present array of support instruments (OECD 2003). The idea of providing a safety net for farm households in income difficulties has attracted considerable attention, with estimates being made of alternative forms that an implementing system might take (ERS 2000). No examples have been encountered in which there is an integrated tax-and-benefits system, or negative income taxes for low income units. Clearly, in countries where everyone is required to complete tax records and self-employed people have to keep accounts, irrespective of the income's size, such a system is capable of being used both to detect and to target cases in poverty. Where such a system applies to the whole population, then it should provide the basis of a general welfare net that could support low income farmers, as all other low income cases. However, in reality, in many countries low income cases in agriculture are not part of the general tax system — for example in Ireland, where in theory farmers are largely subject to the same income tax provisions as the rest of society, a large proportion are thought to fall outside the tax net; tax records exist for about 115 000 (of which only about 40 100 pay income tax) in contrast with the number of holdings of 142 000 (2000). The possible shift to a comprehensive income register for all households, based primarily on tax records, has obvious attractions for tackling the problem of low income in agriculture, but this seems likely to be more an issue for general social welfare policy rather than a matter for agriculture. In the short term such a system may be infeasible for many countries. However, a move in this direction could be to encourage the phasing out of the *forfeit*

tax system where it remains significant in favour of book-keeping and the introduction of taxation based on actual income.

108. Almost universally in the countries examined, social aid to families suffering from poverty seems to be given through means-tested schemes for which application has to be made. It is often supposed that mechanisms designed primarily to meet the social security needs of low income households where wages (from dependent activity) or social transfers form the main source of income are less suitable for those where self-employment is the main generator of livelihood. The shortfall to some administratively-determined poverty line is more difficult to establish when the entrepreneurial rewards from the business are only evident in retrospect. Nevertheless, farm families are often eligible for at least some forms of social security benefits. In this paper special treatment of agriculture within social security schemes have been considered in parallel with those in taxation systems because of the close interaction between taxes and (non-optional) contributions to social funds. Five countries have been found to have special arrangements for agriculture in their social security systems, and in some this has been identified as a particularly significant form of transfer. While there is clearly a potential for using the general social security system to raise the incomes of farm households in poverty, this would require the resolution of problems in the delivery process, including dealing with the political consequences when support which currently gives the appearance (to the farming community at least) of being a reward for the activity of agriculture is made more overtly a form of social support.

### 5.2.3 *Structural problems*

109. Structural problems are primarily associated with farm size and rates of entry and of exit, and the characteristics (particularly ages) of the people involved. At the outset of this paper it was established that one function of tax expenditures was to change the behaviour of the taxed units. The question here is whether tax concessions could be used, or used to a greater extent than they are at present to achieve structural change, especially in the sizes of farms to achieve a pattern that is more compatible with present and future technical and economic conditions.

110. As noted above, some countries give preferential taxation treatment to newly installed farmers. Evidence of the effectiveness of this form of support at attracting or retaining new entrants has not been reviewed as part of this study of tax preferences, though a rational case could be made for this in the early stages of a career when management might be most vulnerable. This issue is capable of investigation (see, for example, van der Veen *et al.* (2004)). Among potential exiters from the industry, only Ireland gives income tax concessions, though special treatment of capital gains are available in Canada, France, and Ireland, often linked to the retention of land within the family.

111. Among taxes on property, the common situation is that agricultural real estate is usually subject to zero or reduced annual taxes and that preferential treatment is given in taxes imposed on transfers, especially on intergenerational ones within the same family. The treatment of annual taxes is likely to have some affect on the willingness of existing farmers to increase their scale of operation by purchase, of new entrants to invest in land and of existing owners to sell, each of which could have some impact on land prices. A much larger impact is likely to come from the many concessions on inheritance and gifts within families, where concessions can act as a component in tax planning by both present landowners and others intending to take advantage of what is on offer by acquiring land. Increased prices of real estate attributable to the tax concession may erode the value of the special treatment and thus on balance do little for the aim of softening the impact of the respective taxes on the structure of agriculture. Demands for further concessions (within the present tax where there is room or in other forms, such as on capital gains) will continue the cycle of causality. The impacts of property tax concessions via asset values may be to delay exits, raise impediments to new entrant farmers and generally hamper the adjustment process in the

industry's structure that other policies (such as pre-pension schemes for older farmers) are trying to promote.

#### 5.2.4 *Resource management and investment behaviour*

112. Tax expenditures were so termed because they were seen as alternatives ways of achieving the aims of programmes that would otherwise involve direct payments drawn from government budgets (and thus appear as public expenditure). Examples of desirable modifications to the behaviour of farm operators (in addition to entry and exist decisions mentioned above) include accelerated depreciation allowances on capital in which the government is aiming to stimulate investment (such as might be the case with pollution-reducing equipment) in place of a direct subsidy on the cost of the investment. Another example is the special treatment afforded to forestry that has occasionally surfaced in information coming from OECD members, put in place to encourage its development.

113. What is striking, however, is the way in which tax expenditures arising from the special treatment of agriculture could lead to behavioural changes that are in conflict with policy aims. This applies mainly to inputs (Table 2.6). Mention has been made already of the concessions that are almost universally extended to fuel used in agriculture. Though a farmer does not have to be a taxpayer to benefit from this concession (unlike those linked to the taxation of incomes or profits), there will be a consequential increase in fuel use. Examples also are found of other concessions, such as on taxes on the use of energy or on emissions, or concessions on taxes on the use of fertilizer and pesticides. All these seem to run counter to environmental aims. Another example is the preferential treatment commonly given to taxes on the transfer of agricultural assets, where it can be argued that the effect has been to raise land prices, posing particular problems for acquisition by new entrants who are not members of the families of existing farmer-landowners but who are encouraged to enter to provide new blood to the industry and remedy what appears to be an inequitable access to farming as a profession.

### 5.3 *In conclusion*

114. The picture emerging from this study of the special treatments afforded to agriculture is an array that not infrequently lacks consistency and coherence in its relationship to policy. Examples can be found in which concessions appear to be ineffective in achieving their own aims because of the shifts in market forces and behavioural responses that they engender. Some concessions lead to higher liabilities under other taxes. Some concessions are plainly inconsistent with the aims of other parts of public policy towards agriculture. All this is suggestive of a collection of concessions that has been built up as individual responses to particular problems, without sufficient attention to the interactions with the rest of the tax system or with other policy instruments and their aims. The historical context of the various special treatments afforded to agriculture has not been explored. This may be important in understanding and explaining the present situation, although it is also likely that changing structures and economic conditions mean that some of the original rationale are no longer valid.

115. This study has also shown that the tax and social security systems potentially have a place as instruments of policy. For example, smoothing mechanisms within the income tax code may be a less costly and more efficient way to deal with farm income instability than current systems. Persistent low income problems may be better handled by the social security system. Impediments to structural adjustment that arise through capital and inheritance taxes could be removed. These same taxes could be used to encourage structural change of a kind that is beneficial in terms of a country's agricultural and rural policy objectives. Overall a number of areas have been identified whereby agricultural problems could be tackled through the tax and social security systems in ways that are potentially more efficient, more cost-effective or more equitable than sector specific measures.

Table 1. Matrix of preferential treatments

Country	Income (personal)		Profits (comp's)	Social security contributions	Payroll, etc.	Property		Goods and services	Other
	System	Rates, etc.,- Other				Capital gains	Inheritance		
Australia		*				*	*	*	
Austria	*	*						*	
Belgium	*	*						*	
Canada						*	*	*	
Czech Rep.		*	*				*	*	
Denmark							*	*	
Finland							*	*	
France	*	*		*		*	*	*	*
Germany	*	*		*			*	*	*
Hungary			*					*	
Ireland		*				*	*	*	
Italy	*	*	*	*			*	*	*
Japan		*		*		*	*	*	
Korea	*						*	*	*
Netherlands		*				*	*	*	*
New Zealand		*							
Norway		*		*		*	*	*	*
Poland	*	*		*			*	*	
Slovakia							*	*	
Spain	*	*					*		
Sweden							*	*	
Switzerland						*	*	*	
United Kingdom		*					*	*	*
United States	*	*	(*)				*	*	

TABLE 2 Review by Type of Concession and Value

Table 2.1 Concessions in taxes on incomes (unincorporated businesses)

	<i>Special system applied to agriculture</i>	<i>Other concessions (rates, thresholds, etc.)</i>	<i>Estimated value*</i>
Australia		Income averaging for primary producers	USDm 280 (2003/4)
		Farm Management Deposit Scheme (stabilising measure)	USDm 180 (2003/4) provisional
		Deferral of income from double wool clip	Unquantified
		Spreading income from insurance recoveries	Unquantified
		Deferral or spreading of income from forced disposal or death of livestock	Unquantified
		Valuation of livestock from natural increase	USDm 145 (2003/4)
		Income tax exemption for dairy exits	USDm 0 (2003/4)
		Exemption of Sugar Industry Exit Grants	USDm 1 (2003/4)
		Deductions for various activities (e.g. accelerated depreciation for water management costs)	-
Austria	Liability is based on assessed value of the farm, which is lower than market value. Below € 150 000 assessed value, tax is based on standard calculations	Cash accounting for smaller farms	-
Belgium	Flat rate system used to determine what constitutes taxable income; widely used in agriculture but also exist for other professions	Specific tax allowance applied to subsidies to agriculture from the European Commission	
Germany	Method of calculation: four systems determined by turnover and organisational form, based on (i) accounts – 30% (ii) simplified accounts - 15% (iii) standards – 50% (iv) estimates by authorities – 5%.	Agricultural income allowance	€ 72.0 m (2002)
		Income tax reduction under the simplified scheme	0
		Simplified calculation of gross agricultural income	€ 21.2 m (2002)
France	Type of valuation used to determine farm income based on farm type and Department (>50% of farmers).	Income smoothing mechanisms*	€282m (2000)
		Reduction of 50% applied to young farmers in the first 5 years of farm takeover.	(* only)
Ireland		Tax averaging	-
		Accelerated capital allowances (pollution control measures)	Estimates not separated
		Concessions to young trained farmers on stock relief.	Estimates not separated
		Concessions to retiring farmers	-
Italy	Type of valuation used to determine farm income based on farm type and region		
Japan	Agricultural income tax	Rate lower than on wages and salaries (about 50%)	Tax burden about 80% of salaried worker households
Korea	Special agricultural income tax, but structured similarly to general system.		

Table 2.1 (continued)

Netherlands		Income averaging not specific to agriculture Forestry income exempt For capital gains, see below	
New Zealand		Income equalisation scheme, also covers fishing and forestry.	Benefits generally small (e.g. 0.25% of average annual income for livestock farmers).
Norway	Special allowance against taxable income up to NOK 61 500	<i>No tax averaging in agriculture, but applied to forestry and reindeer</i>	
Poland	Only production of a specific list of products is covered by the tax system. Taxable income may be assessed using a standard rate or on the basis of accounts		
Slovak Republic		Previous reduced rates of income tax for farmers, tax holidays for new entrants and special treatment of purchasers of state assets have now been phased out..	
Sweden		Some special tax arrangements with farm business income and forestry are possible.	
United Kingdom		Tax averaging	
United States	"Family-farm corporations" can use the cash method if their taxable gross incomes are less than USD 25mn (c.f. USD 1 mn for others).	Sole farmers and partnerships may form three-year average income; this is only available to farmers and on farm income. National environmental subsidies are sometimes tax-free for the farmers.  Joint Committee on Taxation also lists cash accounting for farmers, special treatment of certain costs and carry-back of expenses.	USD mn 2 489 (2002)(estimate supplied to PSE database). It is not clear that this includes all the tax expenditures listed by the Joint Committee on Taxation

\*Note: figures may not be comparable between countries

**Table 2.2 Concessions in taxes on incomes (incorporated businesses)**

	<b>Concession</b>	<b>Estimated value</b>
Austria	A small number of co-operatives are exempt from corporation profits tax	
Czech Republic	Concessions on corporate tax	0
Italy	Concessions for agricultural co-operatives and some others etc.	
Poland	Favourable terms for the recovery of VAT	
United States	"Family-farm corporations" can use the cash method if their taxable gross incomes are less than USD 25mn (c.f. USD 1 mn for others).	

**Table 2.3 Concessions in taxes on capital gains  
(unincorporated businesses)**

	<i>Concession</i>	<i>Estimated value*</i>
Austria	Some relief on inheritance and gift tax	
Canada	<p>Tax on capital gains on transfers of property to family members may be deferred.</p> <p>There is a CAD 500 000 Lifetime Capital Gains Exemption for Qualified Farm Property (including the share of capital stock of family farm corporations). The LCGE includes capital gains from the sale of shares in small business corporations and is therefore not specific or exclusive to agriculture.</p>	
France	Not levied if farm transferred without charge and operates for more than five consecutive years.	
Ireland	Concessions to retiring farmers and other business owners, particularly if assets are transferred within families.	
Netherlands	Capital gains on agricultural land exempt, though with some exceptions	
Norway	Profits on sale exempt if agricultural property held for <10years, and sliding scale from 5-10 years. Includes milk quotas.	
Switzerland	Capital gain on sale of agricultural land is based not on market price but on its book value. In effect, gains appear to be not taxed.	

\*Note: figures may not be comparable between countries

Table 2.4 Concessions in taxes on property

	<i>Concession</i>	<i>Estimated value*</i>
Austria	An Assessed Value specific to agriculture is used as the basis of the annual property tax.	
Australia	Land tax (regional variations): land used in primary production appears to be normally exempt Stamp duty (regional variations): transfer of farms to younger people appear to be exempt in some regions	
Canada	Province-specific annual taxes: agricultural property given special values or rates or other concessions	
Denmark	Property tax: For county taxation, agricultural land is given a reduced rate (in 2004 at 0.43% of the official land value, as opposed to 1% for other land). For municipal tax, maximum for agricultural land is 1.2% and for other land 2.4%.	
Germany	Land tax: Agricultural rate higher than other land but applied to estimated economic value (based on 1964). Payments low. Inheritance tax: based on low values	
Finland	Agricultural (and forestry) land exempt from the tax on property. For taxation of inheritance and gifts, farm property liable to tax is valued at "taxation value" instead of market price.	
France	Agriculture land exempted from local land taxes Partial exemption on registering rights for long-term rental of rural property	€ 304 m (2000) € 91 m (2000)
Ireland	Stamp duty, Special allowances on farm transfers to young, trained farmers. Agricultural Relief on taxes on gifts and inheritance, reduces assets to "agricultural value" Similar relief now on other business assets.	
Italy	Property tax. Some exemptions for farm property, estimated (not actual) values and special tax-free deduction. Stamp duty. Some exemptions for agricultural documents Inheritance and gift tax. Concessions for successors in family line, but these do not appear exclusive to agriculture.	
Japan	Appraised Value for Fixed Assets Tax - Value of farmland assessed at 55% normal market value for Land Value Tax and Land Holding Tax, and Special Land Holding Tax – farmland exempt or normally exempt Real Estate Acquisition Tax – various types of relief Inheritance Tax – special low valuations and waived if successor has worked on land for 20 years.	

Table 2.4 (continued)

Korea	<p>Agricultural land tax has various rates, e.g. higher for absentee landlords.</p> <p>Inheritance tax: exemption within a size limit where the inheritor is a son.</p> <p>Transfer tax: exceptional exemption where the operator was long-established, with "inhabitant" requirement.</p> <p>Stamp duty: certain exemptions for agricultural documents (and 'productive properties')</p>
Netherlands	<p>Annual municipal property tax - agricultural land and forestry are exempt.</p> <p>Conveyance tax - some exemptions for farmland.</p>
Norway	<p>Municipality tax, reduced maximum rate for agricultural property (0.4% of rateable value, c.f. range 0.2% to 0.7% for other property)</p> <p>Inheritance and gift tax – agricultural property valued at reduced levels, normally 75% of sales value</p>
Poland	<p>Exemption from the annual land tax to farmers increasing to 100 ha. Transfers of land are tax free</p>
Slovak Republic	<p>Property taxes may vary as they are at the discretion of municipalities.</p> <p>New entrants exempt from property tax for 5 years.</p> <p>Land in certain areas (national parks etc.) exempt.</p>
Sweden	<p>Farm buildings, farm land and forest land exempt from (annual) property tax. Residential houses on farms not exempt.</p>
Switzerland	<p>Property taxes (annual) for agricultural land are based not on market values but on its calculated "economic value", which is significantly lower.</p>
United Kingdom	<p>Agricultural real estate exempt from the local tax on business property, including a portion of the farmhouse dwelling.</p>
United States	<p>Property taxes (annual) are almost entirely State or municipal, and are thus subject to wide variation. Value of agricultural assets may be based on the expected yield from them rather than the (higher) market value</p> <p>Federal Estate and Gifts Tax applies special rules to inheritance by successors that satisfy certain criteria</p>

\*Note: figures may not be comparable between countries

Table 2.5 Concessions in social security contributions

	<i>Concession</i>	<i>Estimated value*</i>
Austria	Special scheme which has a large deficit but the concessional nature is not clear	
Finland	Special pension to farmers who retire before normal pensionable age. It is not clear if this is a favourable treatment for agriculture..	
France	Special public support for welfare schemes – conceptually unclear whether this represents preferential treatment	
Germany	<i>Special public support for sector specific welfare schemes</i>	
	Agricultural old age pension scheme	€m 2337.9 (2003)
	Agricultural health insurance scheme	€m 1202.7 (2003)
	Agricultural accident insurance scheme	€m 250.0 (2003)
	Agricultural insurance scheme for agricultural workers	€m 14.6 (2003)
Italy	Special public support for welfare schemes	
Japan	Farmers' Pension Fund System; it is not clear whether the additional pension constitutes a preferential treatment.	
Norway	Farmers subject to a lower rate of contributions (7.8% of income, c.f. 10.7 initially on other income of other businesses)	
Poland	Lower contributions, special scheme financed more than 90% by the state budget	
Switzerland	A special supplementary payment system applies to low-income farmers.	Approx. CHFm 120 in 2002

\*Note: figures may not be comparable between countries

Table 2.6 Concessions in taxes on inputs

	<i>Concession</i>	<i>Estimated value*</i>
Austria	Special VAT arrangements for agriculture. Tax reliefs are granted on some insurances, motor vehicles and, since 1 January 2005, on fuel	
Australia	<i>Diesel Fuel Rebate Scheme</i> <i>Goods and Services Tax</i> (like VAT) on agricultural output may be zero-rated	AUD 546 m (2002)
Belgium	Fuel Excise Duty: exemption from excise duty and special excise duty for industrial fuel used in agriculture, horticulture, forestry and freshwater pisciculture.	
Canada	Fuel tax refunds and rebates Some inputs to agriculture are zero rated for the <i>Goods and Services Tax</i>	CDN 319 m (2002)
Czech Republic	Fuel consumption tax compensation	CKR1 300 m (2002)
Denmark	Energy tax and carbon dioxide tax may be partially reimbursed to farmers	
France	Tax on fuel (diesel, bio-fuel etc.);	€ 984m (2000)
Germany	Agricultural vehicles exempt from vehicle tax Diesel oil tax rebate	€m 90.0 (2003) €m 360.0 (2003)
Ireland	Suggestion that the <i>Flat Rate</i> system may be beneficial <i>Motor Taxation</i> : concession on tractors in agricultural production	
Italy	Concession for certain quantities of fuel in agriculture, horticulture, forestry and fish farming (and some other groups)	
Korea	VAT: reductions or exemptions on inputs to encourage agricultural production.	
Netherlands	Concession on excise duty for agricultural tractors and heating. Energy tax – special lower tax for heating used in horticulture.	
Norway	VAT: registered persons in agriculture, forestry and fisheries given longer period to return the VAT. Users of pesticides and fertilizers subject to a tax Concession on fuel tax.	
Poland	Not clear if any concession is involved in the special provision for VAT	
Slovak Republic	Road tax concession Concession on excise tax on fuel – discount is currently 56.1% ( <i>i.e.</i> farmers pay 43.9% of the full tax)	SKK 80 m (2002) -
Sweden	The energy tax and the carbon dioxide tax may be partially reimbursed to farmers. Commercial glasshouse fuel – reduced tax level Carbon dioxide duty: 79% reimbursement.	About SEK 500 m (2004)
Switzerland	Concession on mineral oil tax (but also applies to forestry, fisheries and transport).	
United Kingdom	Reduced excise duty on fuel	
United States	State level taxes that, in at least some, apply concessions to fuel used in agriculture. Full or partial exemption from Federal excise tax on gasoline and diesel fuel At State level some inputs to agriculture not taxed by sales or use taxes	USD 2385 m

\*Note: figures may not be comparable between countries.

*Annex 1.*

**REVIEWS BY COUNTRY**

1. These reviews use a standard presentation in which the main categories of tax and related concessions are described. The base material is derived from NILF (2002) for Australia, Canada, France, Germany, Ireland, Italy, Switzerland, the UK, and the US, and is sometimes supplemented by information available to the Secretariat, including comments and corrections received from countries. For other countries, it is taken from documentation gathered by the OECD Secretariat and other sources given in relevant sections.

2. Among EU-15 (fifteen) member states, no information is available for Greece, Luxembourg, and Portugal. The information is believed to be complete for Denmark, Germany, Finland, France, Ireland, Italy, Sweden, and the United Kingdom. There is no information for Mexico, Iceland and Turkey.

3. Countries for which sections are included are as follows:

Australia  
Austria  
Belgium  
Canada  
Czech Republic  
Denmark  
Finland  
France  
Hungary  
Germany  
Ireland  
Italy  
Japan  
Korea  
Netherlands  
New Zealand  
Norway  
Poland  
Slovak Republic  
Spain  
Sweden  
Switzerland  
United Kingdom  
United States

## Australia

### *Introduction*

4. The Commonwealth of Australia is a federal state and consists of six states and two territories. The federal government as well as the local authorities in the states impose taxes. About three quarters of the total taxes are paid to the federal tax collector. The federal taxes are mostly (82%) taxes on income. The goods and services tax (GST) is considered as a state tax and therefore not included in Australian government revenue. In principle GST is a Value Added Tax (VAT) since companies, farmers, tradesmen etc. can deduct the greater part of GST paid on inputs. Although collected by the Australian Government, GST is transferred directly to the states. Local taxes consist of employer's payroll taxes, taxes on property and taxes on goods and services. The tax on immovable property is a state tax, popularly said to be used on the three r-s (rates, roads and rubbish).

5. The Australian Government Treasury reports annually on tax expenditures in its Tax Expenditure Statement (TES). Tax "expenditures" are defined as tax concessions designed to provide a benefit to a specified activity or class of taxpayers. In the TES such special treatments are assessed with respect to "benchmarks" for each tax, the details of which are also described in the TES. The main tax expenditures (concessions) due to primary production are the income tax averaging scheme, the Farm Management Deposit scheme, and the valuation of livestock; these three constitute the large majority of the total reported tax expenditures to primary producers in recent years. As for the deduction schemes, those relating to water management and accelerated depreciation for grapevine plantings seems the most significant. Accelerated depreciation for grapevine plantings is not available for vines planed after 1 October 2004.

6. The TES classifies tax expenditures into broad groups (concessional tax rate, exemption, deferral). A lot of the tax benefits or *special schemes for primary producers* in Australia, are deferrals *i.e.* the taxation is partially put off to a later period. The benefit can thus be composed of a mix of improvement of liquidity, lower tax progression and inflationary profit.

### *Income taxation*

*(2004 TES code B81) Income tax averaging system for primary producers<sup>12</sup>*

7. Primary producers can elect to pay tax at a tax rate based on their average income earned over the previous five income years. If the taxpayer has not been using this facility for five years, the tax rate is based on the income years in which averaging has applied, and the previous year. This provides a concession because, on balance, the saving from paying less tax in high income years outweighs additional tax paid in low income years. Primary producers can chose to withdraw permanently from the averaging system and pay tax at ordinary rates. However, once the taxpayer has made this choice, it will affect all his assessments for subsequent years and cannot be revoked. This means that the primary producer will be taxed on the same basis as taxpayers not eligible for averaging provisions. The growth in the estimates reflects increased income by primary producers between 1999-2000 and 2002-03. Projections beyond 2004-05 are not reported as the tax expenditure is very sensitive to variations in primary production income, which depends on a number of external factors.

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12. Favourable treatment is reviewed under the codes given to each of the forms of tax.

*(2004 TES code B82) Farm Management Deposit Scheme (FMD)*

8. Farm Management Deposits (FMD) are part of the income tax averaging system. The FMD scheme replaced the Income Equalisation Deposits and Farm Management Bonds (FMB) schemes on 2 January 1999. The FMD scheme provides farmers with an effective tax-linked savings mechanism to allow them to set aside pre-tax income from the good years to help them better manage their businesses during the more difficult years. In this way the deposits reduce the taxable income in the period of deposit and the amount withdrawn is taxable in the period of withdrawal. FMD is only available to individual primary producers who satisfy the eligibility conditions of the scheme. Only taxable income from primary production can be invested in a FMD. Farmers earning more than AUD 50 000 off-farm taxable income in the year of deposit cannot obtain the tax benefits of FMDs. The minimum period of a FMD is twelve months though withdrawal within twelve months is possible in exceptional circumstances. The minimum amount to deposit is AUD 1 000 a year and the minimum withdrawal is also AUD 1 000. The maximum amount to hold in a FMD account at any given time is AUD 300 000. FMD accounts can only be opened in authorized financial institutions. The FMD scheme is very popular among Australian farmers. As of 31 March 2001, there were 15 844 holders and the total deposit amounted to AUD 641 800 000 (AFFA, 2002). The growth in the estimates between 1999-2000 and 2002-03 reflects increased investments by primary producers. The decline in the estimates in 2003-04 reflects a decline in deposits and an increase in withdrawals relative to 2002-03. (Figures for FMD holdings as at 30 June 2004 are now available on the DAFF website – [www.daff.gov/fmd](http://www.daff.gov/fmd) - figures as at 30 September 2004 have been released and will appear on the website in the near future).

*(2004 TES code B83) Deferral of income from a double wool clip*

9. It can occasionally be necessary to advance shearing of wool due to drought, fire or flood. Under these circumstances the woolgrowers can elect to put off the profit on the sale of the wool from the advanced shearing to the succeeding income year.

*Spreading insurance recoveries for loss, timber or livestock (2004 TES code B84) and Deferral or spreading of income from the forced disposal or death of livestock (2004 TES code B85)*

10. It is possible, by choice, to spread insurance recoveries from loss of livestock due to disasters (for example drought, fire, flood or disease) and net income arising from forced disposal of livestock (including natural disasters, compulsory destruction for disease control and compulsory acquisition of land) in equal instalments over five income years. Primary producers who receive income from forced disposal or death of livestock can elect to defer the income and use it to reduce the cost of replacement livestock in the disposal year or any of the next five income years. Alternatively, primary producers can elect to spread profits between the income year of disposal or death and the next four income years. If the disposal of livestock is compulsory due to the Brucellosis and Tuberculosis Eradication Campaign, the deferral period is extended to ten years.

*(2004 TES code B86) Valuation of livestock from natural increase*

11. Primary producers can elect a specific system to assess natural increase in livestock value. Animals acquired by natural increase (that is, newborn animals) as livestock may be valued at cost, market selling value or replacement value. If valued at cost, the taxpayer can use actual cost or costs prescribed by the regulations. These prescribed costs may be lower than the actual cost of production, resulting in a tax expenditure.

*(2004 TES code B87) Transitional trading stock rules for oyster farmers*

12. Oyster farmers are required to account for oysters on hand as trading stock. This includes oysters held on sticks or in trays, or harvested and held ready for sale. A transitional arrangement in 2001-02 allowed such farmers to apply an opening stock valuation based on the 'per stick' designated value. This provided a concession relative to the benchmark valuation, the closing stock value of the previous year. Normal trading stock rules applied after the 2001-02 income year.

*(2004 TES code B88) Income tax exemption for Dairy Exit Program payments*

13. The Dairy Exit Program (DEP) was a part of the Government's Dairy Adjustment Package which helped farmers adjust to a deregulated market. Payments made under the DEP were exempt from income tax. Between 2000 and 2002, the DEP provided a grant of up to AUD 45 000 to farmers in the dairy industry who decided to leave farming. The DEP also provided a retraining grant to eligible farmers to assist them in finding an alternative career after they exited farming.

*(2004 TES code B89) Exemption of Sugar Industry Exit Grants*

14. Grants to individuals who exit the sugar industry under the Sugar Industry Reform Program are exempt from tax if the recipient remains out of the agricultural industry for at least five years. This expenditure aims to provide assistance to cane growers whose business is no longer viable and who need additional help in making the transition to new employment.

*Various schemes to claim deductions*

15. There are several schemes allowing primary producers to claim deductions in different capital expenditures such as:

- Deduction for capital expenditure on water facilities over three years.
- Land care deduction.
- Land care and water facility offset. (The landcare tax off-set ceased on 30 June 2001. The offset will continue to apply after 1 July 2002 to expenditure incurred before that date where the offset is apportioned over three years, or where taxpayers had insufficient tax payable to claim the entire offset in earlier income years.) Deduction for horse breeding stock.
- Depreciation of the capital cost of telephone lines and electricity connections for primary producers.
- Tax write-off for horticultural plants.
- Accelerated depreciation for grapevine plantings (recently repealed – announced in 2004 Commonwealth budget and linked to a reduction in Wine Equalisation Tax for wineries also announced in the last budget).
- Drought investments allowance (This concession ceased at 30 June 2000).

***Property taxation***

*Annual taxes*

16. *Land Tax* is a state and territory tax applied throughout Australia but with various formulations. The example cited in NILF (2002) (Victoria) indicates that land used for primary production appears to be

exempt, but with conditions as to its value, the nature of the owner and its location (such as outside metropolitan areas).

#### *Taxes on transfers*

17. *Stamp duty* varies between parts of the country. An example is known (Victoria) of exemption from this duty of transfers of family farms to younger members, the aim of which was to encourage the use of more efficient and innovative farming methods. In 1993, only a narrow circle of family members were exempted from the tax, but the circle has now been widened. Since 1 June 1999, the exemption also includes the transfer of land used for primary production from a company to natural persons if they are relatives of each other and own all the shares. However, several other conditions also have to be fulfilled if the transfer of the family farm shall be exempt from stamp duty.

#### *Social security contributions*

18. Australia does not have social security contributions.

#### *Other taxes and fees*

19. Although a form of payroll tax applies throughout Australia, details differ between states and territories. In practice, most small businesses, including primary producers, are more or less exempt because of the size threshold applied.

20. The Energy Grants (Credits) Scheme (EGCS) provides an 'off-road' and 'on-road' credit for diesel fuel (and alternative fuels in the case of the on-road credit) used in certain eligible activities, among others agriculture, forestry and fishing. No credits are provided for petrol use. The EGCS was introduced on 1 July 2003, replacing the Diesel Fuel Rebate Scheme (DFRS) and the Diesel and Alternative Fuels Grants Scheme (DAFGS). The DFRS provided a rebate for customs or excise duty paid on diesel or similar fuels (but not on gasoline) purchased for specific off-road uses – mainly in the mining, agriculture and other primary production industries. The DAFGS provided grants for the on-road use of fuel by businesses and other entities, including eligible primary producers. The EGCS provides benefits similar to the DFRS and DAFGS but it also encourages the use of cleaner fuels.

#### *(2004 TES code F15) Wine equalisation tax (WET) cellar door rebates and (2004 TES code F16) WET producer rebate*

21. A partial rebate of wine equalisation tax (WET) was available for certain cellar door, mail order and internet sales of wine. The maximum rebate of 14% of the taxable value was available for all eligible sales of wine up to AUD 300 000 per annum (wholesale value). The rebate tapered to zero for sales between AUD 300 000 and AUD 580 000. The rebate complemented similar state production subsidies of 15%, to support cellar door and mail order sales by smaller winemakers. The WET cellar door rebate was replaced, from 1 October 2004, by the new WET producer rebate. From 1 October 2004, producers receive a rebate of the first AUD 290 000 of WET paid by each producer per annum. The rebate also extends to cider, perry and sake. The WET producer rebate is designed to assist the wine industry, particularly small producers in regional Australia.

#### *Estimates of support to agriculture*

21. Each year the Department of the Treasury publishes a Tax Expenditures Statement (TES). The publication contains information covering many different aspects of the tax system, including the volume of tax expenditures and the benchmarks for each tax against which departures are measured. Total

measured tax expenditures to primary producers in Australia are calculated (in the region of AUD 616 million for 2003-04) for the following (numbered as in the 2004 TES):

*Income tax benchmarks*

- B81 Income tax averaging for primary producers
- B82 Farm Management Deposit scheme
- B83 Deferral of income from a double wool clips
- B84 Spreading of income from insurance recoveries for loss of timber or livestock
- B85 Deferral or spreading of income from the forced disposal or death of livestock
- B86 Valuation of livestock from natural increase
- B87 Transitional trading stock rules for oyster farmers
- B88 Income tax exemption for Dairy Exit Program payments
- B89 Exemption of Sugar Industry Exit grants

*Deductions benchmarks*

- B26 Three year write-off for expenditure on water facilities for primary producers
- B27 Land care deduction for primary producers
- B28 Water facilities and land care concession for irrigation water providers
- B29 Land care and water facility offset
- B30 Deduction for horse breeding stock
- B31 Deduction of the capital cost of telephone lines and electricity connections
- B32 Tax write-off for horticultural plants
- B33 Accelerated depreciation for grapevine plantings
- B34 Drought investments allowance

*Other benchmarks*

- Income Equalisation Deposits (IED) scheme (phased out in 2000)
- B82 Farm Management Deposit scheme to increase farm size (ABARE, 1988).
- F15 Rebate of wine equalisation tax for cellar door and mail order wine sales
- F16 Wine equalisation tax producer rebate

22. Estimates for the main forms of concession, taken from the TES 2004 are given in the table below. These have been arranged in the order in which expenditures have been treated elsewhere in this report. It should be noted that for some of the expenditures estimates are not made (described in the TES as 'unquantifiable' and marked \*), while others round to zero.

**Extracts from the Tax Expenditures Statement 2004, Australian Treasury January 2005**

*More information on individual taxes can be found on the Australian Taxation Office website [www.ato.gov.au](http://www.ato.gov.au)*

	<b>Type of expenditure</b>	<b>Dates</b>	<b>2000-1 AUDm</b>	<b>2001-2 AUDm</b>	<b>2002-3 AUDm</b>	<b>2003-4 AUDm</b>
Income tax averaging system for primary producers	Concessional tax rate	Before 1985	175	280	220	190
Farm Management Deposit scheme (FMD)	Deferral	1999 -	50	150	410	250
Deferment of income from double wool-clips	Deferral	Before 1985	*	*	*	*
Spreading of income from insurance recoveries for loss of timber or livestock	Deferral	Before 1985	*	*	*	*
Deferral or spreading of income from the forced disposal or death of livestock	Deferral	Before 1985	*	*	*	*
Valuation of livestock from natural increase	Concessional tax rate	Before 1985	290	190	85	105
Transitional trading stock rules for oyster farmers	Concessional tax rate	2001-2002		0		
Income tax exemption for Dairy Exit Program payments	Exemption	2000 - 2002		1	1	0
Exemption of Sugar Industry Exit Grants	Exemption	Announced in 2003 -				1
Rebate of wine equalisation tax (WET) for cellar door and mail order wine sales (replaced by WET producer rebate from 1 October 2004)	Offset	2000-October 2004	15	14	16	16

\* Unquantifiable; 0 rounded

## Austria

### Introduction

23. Austria has some 152 456 businesses producing grains, potatoes, sugar beets, wine, fruit; dairy products, cattle, pigs, poultry; and lumber from about 2.9 million hectares (2003). Farming traditionally has been run by families for generations and protecting the natural living conditions has always been an issue of Austrian agricultural policies.

24. Information about the special treatment of agriculture in Austria, though not fully detailed, is sufficient to indicate the general pattern and to justify a separate section in this report

### Income taxation

25. Individual Income Tax is levied at progressive rates up to a maximum of 50%. Net income (profit) from agriculture and forestry is determined by deducting business expenses from gross revenue. Cash accounting is permitted for lower income farms. However, the accrual method of accounting is mandatory if turnover exceeds € 400 000 in each of two consecutive years. This is also true for agricultural and forestry businesses if their Assessed Value (*Einheitswert*) at 1<sup>st</sup> January of a year exceeds € 150 000. The Assessed Value, which is a value established by the revenue office for tax purposes that expresses the productive capacity of the agricultural/forestry entity, is calculated according the provisions of the Valuation Statute. It is considerably lower than business market value .

26. A very specific tax regime is applicable to individuals earning income from agriculture and forestry according to a regulation based on the Income Tax Act and stated by the Federal Minister of Finance. Cash-basis taxpayers may opt for the following lump sum schemes:

- Businesses, the assessed value of which exceeds € 65 500 up to a ceiling of € 150 000 may deduct from business receipts 70% of the receipts (including VAT) as business expenses (*Teilpauschalierung*)
- If the Assessed Value does not exceed € 65 000, the amounts effectively received and paid-out are irrelevant. Instead, the Assessed Value forms the basis for income tax. Three different flat rates are possible (*Vollpauschalierung*):
  1. 37% of the respective value in the case of an Assessed Value ceiling of € 15 000 ,
  2. 41% of the respective value in the case of an Assessed Value exceeding € 15 000 but less than € 36 500,
  3. 45% in the case of an Assessed Value exceeding € 36 500 and up to € 65 000 .

27. Farmers applying the flat rates may not compute their social security contributions based on the amount of income shown in their income tax assessments, but do so on the basis of the Assessed Value of their business.<sup>13</sup> In this way, interaction is given between social security contributions and income taxation.

28. More than 90% of all businesses deriving income from agriculture and forestry are estimated to apply this preferential regime. Thus, tax revenues are very low.

### Profits of companies

29. Cooperatives (*Genossenschaften*), commonly used in the agricultural sector, are companies with separate legal existence and flexible membership and are primarily intended to further their members'

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13. Section 23 (1) b "Farmer Social Security Act," *Federal Gazette* No. 1978/559.

businesses. An Austrian corporation's profits are taxed at the company level by a Corporate Income Tax at a flat rate of 34% (from 2005 onwards 25%). The taxable income is determined on the basis of the results shown in the annual financial statements with adjustments to comply with specific fiscal provisions. Only a very small group of cooperatives are tax exempt under certain conditions.

### ***Property taxation***

#### *Annual taxes*

30. Businesses running agriculture and forestry are subject to:

- Land Tax; and
- Tax on Agricultural and Forestry Enterprises

31. There is no special treatment of agriculture. However, as explained in paragraph 26, the system of taxation is based on an Assessed Value (*Einheitswert*) that is specific to agricultural land, making it difficult to make a meaningful comparison with other sectors.

#### *Taxes on transfers*

32. Capital gains derived from sales of businesses and parts of businesses are taxed as ordinary income. In Inheritance and Gift Tax, some tax reliefs apply to the agricultural sector, but treatment does not differ from other property.

### ***Social security contributions***

33. Farmers and their families are covered by a federally-organised sector-specific social security scheme (SVB) that encompasses the three main areas of benefits (health insurance, accident insurance and pensions). Retired farmers who have handed their farms over to successors are also covered. Similar schemes exist for other groups in society (railway workers, miners, notaries) though the coverage of benefits may not be as wide.

34. Social insurance through the SVB is compulsory. Contributions to the scheme are normally derived from the Assessed Value of the business rather than actual income. If the manager of the farm business opts for tax to be assessed on actual income, all income will be taken into account (including from non-agricultural activities) though certain forms (*e.g.* from farm holidays) remain exempt.

35. The contributions to the SVB are insufficient to fund the costs of social benefits received by people working in agriculture and their families. The gap is made up out of general government taxation. However, this is not confined to the SVB and such funding is also provided for (old age) pensions of other self-employed professionals and small traders.

### ***Other taxes and fees***

36. . *VAT*: All farmers who are cash-basis taxpayers may opt for the ordinary VAT scheme. However, there are special arrangements available to agriculture and forestry. Cash basis taxpayers opting for the lump sum system of income taxation may pay VAT at an average rate of 10% on both inputs and outputs. There is no record keeping required and no assessment is made by the tax office. A special rate of 12% applies between businesses. For example, a farmer who sells cattle to a cattle dealer has to invoice the transaction at a rate of 12% which may then be offset by the dealer against his tax payable. It is not clear if the special system provides an element of subsidy, but it seems unlikely given that the ordinary VAT rate is 20%.

37. *Insurance Tax*: some tax reliefs do apply to the agricultural sector.
38. *Motor Vehicles Tax*: Motor vehicles used solely on farms are tax exempt from Motor Vehicles Tax.
39. *Mineral Oil Tax* : As of 1 January 2005 Mineral Oil Tax levied on diesel used by farmers will be reimbursed. This measure was introduced in order to improve the competitiveness of Austrian farmers.

## **Belgium**

### ***Introduction***

40. Information on special treatment of agriculture in tax and social security systems is incomplete. However, enough is known to justify a separate entry.

### ***Income taxation***

42. A fixed rate base (tax schedule) is widely applied to agriculture to determine what constitutes taxable income. Similar schedules are also used for other professions. A set of rules can be used to determine the size of the lump sum tax payment, including the rental value of the land farmed. A specific 16% tax allowance is applied to subsidies and benefits given by the European Commission to the agriculture sector.

### ***Property taxation***

#### *Annual taxes*

43. No information has been made available on special treatment of agriculture in property taxation.

#### *Taxes on transfers*

44. *Capital Gains tax:* A capital gains tax applies, but no information has been made available on any special treatment of agriculture.

45. *Taxes on inheritance, sales, etc.):* No information has been made available.

### ***Social security contributions***

46. Apparently no preferential social security measures are specific to the agricultural sector.

### ***Other taxes and fees***

47. *Excise duty on fuel.* The agricultural, horticultural, forestry and freshwater pisciculture sectors are exempt from excise duty and from the special excise duty for industrial fuel.

48. *VAT.* A special regime is applied to farmers. They do not have to maintain VAT accounts (with some exceptions) and receive a lump sum payment as compensation. Payments are made by the purchasers of agricultural products who are then reimbursed by the state. Farmers, however, are subject to the normal VAT regime if their business takes the form of a company, or where they exercise another activity that is taxed normally. The Crown (state) determines what constitutes a farmer for the purpose of the special regime and fixes the lump sum percentage. While farmers can opt for the normal VAT regime, the Crown determines the conditions for this option. In line with treatment of VAT in other countries, no comment is offered here on whether or not this special treatment provides an income benefit to farmers.

## Canada

### *Introduction*

49. The federal government levies income tax, corporate tax, purchase tax as well as capital tax on corporations, consumption tax and customs. The provinces levy purchase tax, land and property taxes, and also income tax. Through agreements, federal and provincial governments with the exception of Quebec use federally defined personal and corporate income tax bases. The province of Quebec represents a special case, allowing the local authorities to levy an independent income tax. Municipalities, local school authorities and some special purpose authorities are allowed to levy taxes; however this is normally limited to property taxes.

### *Income taxation*

50. Farmers' incomes from farming and forestry are taxed as business income, although there are some tax advantages for farmers. Sole proprietorship, partnerships and corporations can choose between accrual or cash accounting (this provision is only available to farmers and fishermen). Under cash-basis accounting, farmers can claim expenses before the related revenue. There is a provision that requires the value of purchased inventory (mandatory inventory adjustment) to be added back before a cash-basis loss can be claimed. Profits from the sale of agricultural buildings or land and of animals for sport or work are not considered as income, but are subject to capital gains tax (see below).

### *Related to income stabilisation*

51. A special scheme has operated whereby farmers opened an interest-earning Net Income Stabilisation Account (NISA) to which the government may also contribute.<sup>14</sup> For partnerships and companies there were rules that relate to part-ownership, activities and responsibilities. In 2003, the NISA program and the disaster assistance program were replaced by the Canadian Agriculture Income Stabilization (CAIS) program. Starting in 2004, the producers will be given five years to withdraw all moneys from their NISA accounts. Under NISA, government contributions and interest earned were deposited in NISA Fund 2 with tax on these deposits deferred until they were withdrawn by the participants. This tax deferral benefit will continue until Fund 2 balances are fully withdrawn. All NISA funds must be withdrawn by 31 March 2009. The producer contributions (Fund 1) were not tax deductible when deposited and are not subject to tax when withdrawn. For the CAIS program, the government payments are treated as farm income as participants receive them and are not subject to tax deferrals.

52. *Deferred Cash Purchase Tickets.* Proceeds from deferred cash purchase tickets for grain delivered to a primary or process elevator can be deferred until the following year. For this provision, grain means wheat, oats, barley, rye, flaxseed and rapeseed produced in the designated area defined by the Canadian Wheat Board Act.

53. *Optional Inventory Adjustment (also called Flexible Inventory Provision).* Farmers using cash-basis accounting can add up to their fair market value of their inventory to their income in each year. They must deduct this amount in the following year. Essentially, this allows farmers to add to the income they report for tax purposes in a low income year and deduct the same amount in the following year. This has the effect of averaging income between years and lowering overall tax liability over time due to the progressivity in the tax structure. It also allows farmers to avoid creating losses that would be subject to the time limitation if carried forward.

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14. NISA has now been replaced by an alternative scheme, but the changes are not reflected here.

54. *Deferral of Income Received for Destruction of Livestock.* Compensation received for forced statutory destruction of livestock can be deferred to the following year so compensation may be offset by the costs of acquiring new livestock in the subsequent period.

55. *Tax Deferral for Drought-induced Sales of Breeding Livestock.* This provision permits farmers in prescribed drought areas to defer a portion of the net proceeds from the sale of breeding livestock into the following year. Prescribed drought regions are areas that are designated on the advice of the Minister of Agriculture and Agri-Food Canada to the Minister of Finance.

#### *Other provisions*

56. *Deduction of Certain Capital Expenditures.* Amounts paid for clearing land, levelling land, and laying tile drainage can be deducted as a current expense. Farmers can also deduct some pre-production expenses associated with vineyards and orchards. Following the guidelines found in the Generally Accepted Accounting Principles, the costs of these improvements should be distributed over a number of years because the resulting benefits would be realized over an extended period of time.

57. *Annual Allowance on Eligible Capital Expenditures.* Businesses, including farms, can deduct an allowance of up to seven per cent of 75% of their cumulative eligible capital expenditures on intangible assets such as goodwill and franchises. Quota qualifies as an eligible capital expenditure and as such an annual allowance can be deducted on 3/4ths of its cost.

58. *Exemption from Quarterly Instalments.* Unlike other individual taxpayers, farmers do not have to make quarterly instalments of tax. They pay two-thirds by 31 December and the remainder before 30 April of the next year.

59. *Investment Tax Credits.* Investment tax credits reduce federal taxes payable and do not affect provincial revenues. The general investment tax credit was phased out in the 1985 federal budget. However, credits are still available in the Atlantic provinces and Gaspé region for investments in certain industries including agriculture. The Atlantic Investment Tax Credit rate is 10% for eligible expenditures incurred after 1994.

60. *Restricted Farm Losses.* Section 31 of the Income Tax Act restricts the farm losses that can be claimed against other income by taxpayers whose chief source of income is neither farming nor a combination of farming and some other source of income. The farm loss that can be claimed is restricted to CAD 2 500 plus one half of the next CAD 12 500 of loss. This measure restricts potential revenue losses to the federal and provincial governments. Any loss that is not claimed because of this restriction can be carried forward up to ten years or back three years to deduct against any farm income in those years.

#### ***Property taxation***

##### *Annual taxes*

61. Annual property (real estate) taxes are levied only by local authorities and municipalities (and provinces in some cases) and are used to fund services (water, sewage, solid waste, transit, roads, police, fire protection, etc.) provided to residents. Property taxes are also used to fund primary and secondary education in most provinces. The characteristics of these taxes vary widely. Property taxes are a benefit-based tax and are set to capture, as closely as possible, the cost of services consumed. As farms generally consume less of these services than other properties, such as residential properties, this provides a rationale for treating agricultural properties differently from other properties.

62. There are a number of property tax programs provided to the agriculture sector by each province. These include:

- Exemptions of some properties, such as farm buildings and residences.
- Assessments that are less than the agricultural market value.
- Rebates by provincial governments on some of the taxes paid by farmers.
- Deferral (and forgiveness) of taxes due unless the use of the farm land changes to non-farm use.
- Lower maximum tax rates that can be paid by the agriculture sector.

63. A brief description of the agricultural property tax programs in each province is given below.

Province	Agricultural property tax program
British Columbia	There are exemptions on buildings and farm residences (in rural areas). The assessment values of farmland are much lower than agricultural market values.
Alberta	Most buildings and farm residences are exempted. The assessment program results in land being assessed at significantly below the agricultural market value
Saskatchewan:	SaFarm residences and buildings are excluded from property taxation. The assessment value for farmland is 50% (for rangeland) and 70% (for cropland) of the agricultural market value.
Manitoba	Farm properties are assessed at 30% of the market value (45% for the farm residence). Farmland is excluded from the education (school) levy.
Ontario	There are lower limits on the maximum tax rates for farmland and buildings (25% of the residential rate for eligible farmland buildings). Farm property is assessed at market value.
Quebec	A rebate of farm property taxes is provided (around 50% of farm property taxes paid across all farms and around 77% when gross farm sales are greater than \$10 000). There is also a maximum limit on the assessment value of farmland for school taxation purposes.
New Brunswick:	For registered farm property (farmland and/or outbuildings) in the Farm Land Identification Program, there is a deferral of the provincial tax of CAD 1.50 per CAD 100.00 of the assessed value as well as the portion of municipal taxes greater than the average local tax rates. If the property use changes from farming to other uses, then the last 15 years of property taxes become due. All residences that are owner occupied receive a rebate from the province on provincial property taxes.
Nova Scotia:	Farmland is exempted from taxes, while farm residences and buildings are subjected to the property tax.
Prince Edward Island:	Farmland is assessed at less than 50% of the agricultural market value
Newfoundland	Farmland and buildings are exempt from paying local real property taxes. However, the local government in some areas assesses a business tax on farm property.

64. The value of capital tax concessions has been calculated, but with widely varying results (NILF reports CAD 70 to 1 061 mn).

#### *Taxes on transfers*

65. There are no inheritance taxes in Canada

66. *Capital gains tax.* There is a special free amount of capital gain relating to farm property from family farm corporations, family farm partnerships, agricultural land or buildings or quotas for milk or egg production. Transfers to family members (children, remaining partner, or children-in-law) are not taxed.

This defers any taxable capital gain and any recapture of capital cost allowance. Where a farm or certain other property is transferred by a parent to a child, grandchild or great-grandchild, the capital gain can be brought into income over a ten-year period. The maximum reserve period for the recognition of capital gains arising from the sale of most other assets is five years.

67. There is also a cumulative *Lifetime Capital Gains Exemption (LCGE)* of CAD 500 000 on the sale of qualified farm property. This provision allows farmers selling property to avoid tax on the half of the gain that must be included in income (up to CAD 250 000). Qualified farm property includes farm buildings, land, quota, and shares of family farm corporations. There is also a CAD 500 000 LCGE for gains in respect of sales of shares in qualified small business corporations. This benefit is available to all small business corporations and should not be included as a preferential treatment of agriculture.

### *Social security contributions*

68. A special private insurance scheme applies to farmers, contributions to which are tax-deductible.

### *Other taxes and fees*

69. *Fuel tax.* Both federal and provincial taxes apply. The federal excise tax rates are 10 cents per litre on gasoline and 4 cents per litre on diesel for all users, including farmers. However, each province levies its own taxes on gasoline, diesel, and propane, but farmers generally do not pay the provincial taxes on these fuels. The methods of exemption and rebates vary from province to province. Typically, diesel fuel is dyed and farmers are exempt from the tax at the time of purchase, while gasoline is kept clear and farmers apply for a tax rebate after purchase. Farmers can only use coloured fuel in off-road situations, and usage is not lawfully permitted for use in road licensed vehicles. Farmers are exempted from the provincial tax on propane; in some provinces it must be paid if used for automotive purposes. In each province, the farmer must apply to the provincial government for a tax exemption card or permit, which enables the farmer to purchase coloured fuel tax-free, and apply for a tax rebate on gasoline. The current rates are indicated in the following table.

**Federal Excise and Provincial Fuel Taxes  
(as of 11 June 2004)**

	Unleaded Gasoline (cents/litre)	Diesel (cents/litre)	Propane (cents/litre)
Newfoundland	16.5	16.5	7.0
Prince Edward Island	17.0	16.5	17.0
Nova Scotia	15.5	15.4	7.0
New Brunswick	14.5	16.9	6.7
Quebec	15.2	16.2	8.2
Ontario	14.7	14.3	4.3
Manitoba	11.5	11.5	3.0
Saskatchewan	15.0	15.0	9.0
Alberta	9.0	9.0	6.5
British Columbia	14.5	15.0	2.7
<b>Canada (Excise Tax)</b>	<b>10.0</b>	<b>4.0</b>	<b>0.0</b>

*Note:* Saskatchewan: bulk gasoline purchases, 80% refunded, or 12 cents/litre. Alberta: Farmers receive additional 6 cents/litre on diesel from the government as Alberta Farm Fuel Distribution Allowance.

***VAT and sales taxes***

70. VAT taxes apply at federal and provincial levels. The *Goods and Services Tax (GST)* is a 7% value-added sales tax. Farmers, like other businesses, can recover any federal (GST) paid on input purchases through input tax credits (ITC). Major inputs purchased exclusively by farmers (farm machinery and equipment, fertilizer, pesticides, etc.) are zero-rated. Therefore, they do not need to claim ITCs to recover the GST on these purchases. At the provincial level, Newfoundland and Labrador, Nova Scotia and New Brunswick have a 15% federal/provincial *Harmonized Sales Tax* (7% is the federal part and 8% is the provincial part) which is applied on the same basis as the GST. Quebec also has a value-added tax which operates on a similar basis to the GST. The *Quebec Sales Tax* is calculated on the selling price (including the GST) at the rate of 7.5%. There are provincial retail sales taxes in British Columbia, Saskatchewan, Manitoba, Ontario and Prince Edward Island. There are varying exemptions for production goods among these provinces. All of these provinces exempt most farm input purchases, but there are some differences in the lists of exempted farm inputs among these provinces. There is no sales tax in Alberta; this applies to all sectors of the province's economy, which means that agricultural producers receive no special treatment in this regard.

### **Czech Republic**

71. The OECD PSE database contains entries for fuel subsidies and concessions on corporate tax. The former relates to budgetary expenditure to offset a fuel tax increase to farms while the latter concerns a concession on profit tax to large scale farms that was given between 1986 and 1990. No other information is available.

## Denmark

### *Introduction*

72. Denmark places great emphasis on personal income taxes as approximately 50% of public income comes from direct personal taxes. Social contributions from the employer are, on the other hand, almost non-existent. Individual taxes are paid to the state, county and local authorities while corporate taxes are only paid to the state. Tax exemptions for the agricultural sector are few and there is no special treatment of the agricultural sector concerning social security.

### *Income taxation*

73. Individuals are subject to state, county and local council taxes. Collection is normally carried out by the state but assessment is carried out by the local council. The tax rate on income includes the labour market fund contribution. Income from capital is also taxable and includes capital gains on the sale of shares net interest income or expense; capital gains from real estate investments under some circumstances; and capital gains and income from certain other investments in financial assets. For shares held more than three years the capital gains are tax free if the value of the shares is less than about € 20 000.

73. Companies pay a flat rate state tax on income and capital gains. The determination of a corporation's taxable income is based on the accounts prepared on a historical cost basis and in accordance with generally accepted accounting principles. Certain types of income are tax free, e.g. dividends and capital gains on shares if the shares have been owned for at least three years. Depreciation charges made in annual statutory accounts are normally based on historic cost values using the straight-line method over the expected useful life of the assets. Balanced sheet tax depreciation is used especially with respect to machinery and equipment.

### *Property taxation*

#### *Annual taxes*

74. There are no taxes on wealth, but land is taxed at county and municipality levels. The county land tax is fixed in all counties at 1% of the official land value, except for land used for agricultural production where the rate is 0.57% in 2003, 0.43% in 2004, and planned to be 0.38% in 2005. Up to 1995, a share of the county tax on land used for agricultural purposes was transferred to a fund which supports general activities in the agricultural sector with the aim of improving productivity and marketing. In 1996, the tax levied on agricultural land was lowered and the transfer arrangement came to an end. Instead, the fund received a similar amount from the proceeds of the levy on pesticides.

75. The municipality land tax is, in general, minimum 0.6% and maximum 2.4%. For land used for agricultural production, the minimum rate is also 0.6% while the maximum rate is 1.2%.

76. The municipalities and counties also collect tax on the total value of owner occupied dwellings. The tax is 1% of the value of the dwelling including both building and land. Owner occupied dwellings on farms are included in the tax.

77. The taxes are calculated on the basis of the official property valuation made by the valuation authorities assisted by the tax authorities.

### *Taxes on transfer*

78. An **inheritance tax** is payable on the market value of the asset if the value exceeds a certain amount. Spouses are exempt from paying the tax. Gifts with a value above a certain base value are also subject to a tax. There is no special legislation for farmers and farmer's families.

79. A **stamp duty** is levied at the registration of ownership of real property, ships and planes. No special concessions for agriculture have been reported.

### *Social security system*

80. The social security system in Denmark is characterized as being relatively open with general access for all relevant groups. Membership of the voluntary unemployment insurance scheme is, however, required in order to receive unemployment benefits, but self-employed people can join. The basic public pension system is open for all, only requiring an age qualification and a certain length of stay in the country. In comparison with most other EU countries, only part of the social benefits in Denmark are based on employers' contributions and direct contributions from the insured, and the right to financial assistance is only partly dependent on earlier employment. About 2/3 of total social expenditure is financed by the State via taxes and duties as against 1/3 for other EU countries on average.

### *Other taxes and fees*

- The standard **VAT** rate is 25%.
- Farmers have the possibility to be partly reimbursed for the **energy tax** on fuel and electricity and the **carbon dioxide tax**.
- Users of **pesticides** are subject to a duty based on the contents of the products. Part of the levy is used for a fund to support improvement of productivity and marketing in the agricultural sector.
- There is also a **duty on antibiotics and growth promoters** used in animal foodstuffs based on the content of the products.

## Finland

### *Introduction*

81. The central government and municipalities in Finland have the right to levy taxes. Municipalities receive a grant from the central government to enable them to provide the services they are responsible for.

82. In principle, Finnish farmers face the same rules for taxation and social security as the rest of society even if there is a special institution responsible for the social security system for farmers.

### *Income taxation*

83. Individuals are taxed according to progressive tax rates at the national level and flat rates at the municipal level. Individuals are subject to income tax whether employees or self-employed. Individuals are also subject to a state wealth tax. Any income accrued from capital, e.g. dividends, rental income and capital gains, as well as interest on income, is taxed at a flat rate. The gain from the sale of the taxpayer's home is tax exempt if the taxpayer has owned and lived in it continuously for at least two years.

84. All companies are subject to corporate income tax, but no capital tax is levied on the net wealth. Commercial accounts establish the basis for taxation. Losses may be carried forward and set-off in the subsequent ten tax years. The depreciated balance method is the method of depreciation adopted in Finland.

### *Property taxation*

#### *Annual taxes*

85. Real property is subject to real property tax and is based on the taxable value of the property. The revenue goes to the municipality where the real property is situated. Land used in forestry or agriculture is exempt from property tax.

#### *Taxation on transfer*

86. A *tax on inheritances* is imposed on the individual share of each beneficiary. The tax is based on the market value of the property inherited on the date of the death. The *gift tax* follows the same principle as taxes on inheritance. If inheritance or gift includes a farm, the property liable to tax can be valued according to the taxation value instead of the market value. There is no special legislation for farmers and their families. A *transfer tax* is payable on the transfer of real estate and securities while a *stamp duty* is levied on certain documents, such as honorary titles and certain licenses. No concessions on taxation of property at the transfer level have been notified. For capital gains, see section on income above.

### *Social security system*

87. The Finnish social security system is composed of three basic elements: preventive social and health policies, social and health care services, and social insurance. A distinctive characteristic of the Finnish social insurance system is that a large proportion of social insurance is managed by private insurance institutions, although the system is obligatory and statutory; e.g. there is a private insurance institution that manages the social insurance scheme for the majority of Finnish farmers. The security system is financed through employer contributions, contributions by the insured, and taxes.

88. In principle, the social security system for farmers offers the same employment security as employees in other professions, *e.g.* retirement payments, disability payments, and unemployment payments. There is also a possibility of receiving help at the farm. A special pension is given to farmers who cease their commercial activities before their retirement age. Insurance payments are based on, for example, the size of the farm, number of work hours at the farm, and on income.

***Other taxes and fees***

89. The VAT is, in general, 22% but a reduced rate of 17% is applicable for food.

## France

### *Introduction*

90. Historically, French agriculture has been subject to an extremely complex taxation system that is relatively more generous and clearly differentiated from that applying to those working in other sectors. Variations within agriculture result, for example, from differential treatment for product sectors, whether the farmer is engaged in related activities such as processing, retailing or pluriactivity, and whether the legal status of the farmer is as an individual entrepreneur, or as a member of a collective group or society. However, it appears that there are only a few measures that are solely applied to agriculture.

### *Income taxation*

91. The agricultural income tax system is composed of three core tax regimes (*forfait collectif*, *réel simplifié*, and *réel normal*) and numerous options, differentiated according to farming income and structure (there is a separate regime for forestry). The applicable regime is determined primarily on the basis of turnover (receipts), including subsidies and allowances, calculated over two years. Farmers and farm businesses with a two-year average turnover of more than € 274 000 (€ 350 000 from 2004) and those below this level who opt voluntarily for the scheme are assessed under a *réel normal* regime. This operates according to the same general principles of bookkeeping and of basing tax assessment on profits that apply to business and industry. About 20% of farmers are assessed for income tax under this regime. At the other end of the scale, under the *régime du forfait collectif*, the profits of small farms are taxed on a collective standard basis rather than on actual income. It is an option for farmers and farm businesses with an average turnover of less than €76 000. It also applies to new entrants in their first two years. Payment is a lump sum that combines two elements: a collective reference figure calculated at the *Département* level (taking account of the liabilities for different types of production and farm structures), and the individual circumstances of producers in terms of their amount of land, number of animals, etc. A majority of farmers – about 60% – pay income tax under the *forfait* regime. Thirdly, the *réel simplifié* (simplified regime) is compulsory for farmers with average receipts of between € 76 000 and € 114 000. It is also available to farmers who opt out of the *régime du forfait* and have a turnover up to € 274 000. Benefits include simplified administrative arrangements and a less onerous accounting regime. This regime accounts for 40% of cases (200 000 farmers).

92. Whether taxable agricultural income is lower under the *forfait* scheme than under bookkeeping is an empirical question. It can go both ways, depending on the type of farm, the farm size and the share of rented land. According to research by the agricultural division of INSEE, it would appear that for farmers earning more than € 20 000, fiscal gains for those declaring their income under the fixed profit regime — about one quarter of all farmers according to INSEE estimates — represent about 7% of agricultural accounting income (*revenu comptable agricole*). In addition, however, it should be considered whether taxation on an actual (real) basis for small farmers currently on the *forfait* system would engender costs for the state and for the farmers that would be prohibitive compared to the actual yield.

93. A type of smoothing mechanism was introduced in the 2002 *Loi de finances* whereby savings of up to € 21 300 per year are deductible from tax (*dispositif d'épargne défiscalisée- DPA* – deduction for risks). It allows farmers who are taxed according to a regime based on real profits to deduct as an expense (thus tax deductible from the overall agricultural profits) payments deposited on a professional savings account to be used in cases of unforeseen problems due to climatic or family conditions, or due to a sharp decrease in income. The sum on this account then becomes taxable when used. Thus, there is only a relatively small fiscal advantage, and one which is in no way equal to the sum initially deducted. This mechanism supplemented an existing mechanism (the deduction for investments – DPI) that enabled farmers who are under the *réel* regime to deduct for five years, as a tax exemption, a fraction of their

profits at the end of each fiscal year in order to finance their stock, their fixed redeemable assets, or their shares in agricultural cooperatives. However, any depreciation (which is also tax deductible) of investments financed in this way must be decreased in equal proportion, thereby gradually re-introducing the tax.

94. There are some special rules for farmers. Firstly, young farmers that start farming are allowed to reduce their taxable agricultural income for five consecutive years by 50% only if they fall under the bookkeeping tax regimes. This special rule is also applied to tradesmen and craftsmen who start their own business. Secondly, those farmers whose accounts are managed by an accounting office benefit from a 20% tax allowance on profits taxable by the *réel* regime; again, this is true for all businesses and is not specific to the agricultural sector.

### ***Taxes on Property***

#### *Annual taxes*

95. Real estate in France is subject to a property tax that is collected by local government (region, department) and a land tax based on the economic value of the land. However, regional and departmental taxes on land on which no buildings have been constructed (the TFNB), which was a local tax, have been abolished as part of the 1992 CAP reform. The government granted a compensation to the territorial authorities concerned.

96. There is a concession on land tax in case of a natural disaster (*e.g.* the drought in 2003), but this is a measure extended to all owners of non-developed (built-on) land.

#### *Taxes on transfer*

97. On capital gains accruing to businesses, there is exemption up to € 250 000 and a progressively declining reduction in the tax rate levied (that is, the rate applied increases) between € 250 000 and € 350 000. It should be noted that these measures are not confined to the agriculture sector. An heir to a farm who has to compensate his co-heirs is allowed to value the land at about half of its open market value. Capital gains taxes are not paid if a farm that is transferred without charge continues its operations for more than five consecutive years.

98. Here it is convenient to include the partial tax exemption given for registration rights for long-term rental of rural property. Shares in the GFA (*Groupements Fonciers Agricoles* — Farm land associations), which represent rented rural property under the regime of long term rental agreements, benefit from certain advantages concerning registration rights.

### ***Social insurance system***

99. France has its own social security system for farmers, their families and farm workers. Around 42% of all budgetary expenditures on French agriculture was provided through the special social security system in 1999 and 2000. This system is, in part, financed by state budget and other sources (*e.g.* product fees on tobacco and alcohol). Farmers' own social security contributions formed only around 18% of the total expenses of the social security system. However, the issue of whether this budgetary amount given to the specific social security systems for farmers represents a preferential treatment has to be seen in its national context of the organisation of the French social security. There is no single system in France, but rather several professional regimes. Several of these regimes are unbalanced for demographic reasons. This is the case for farmers, but also for fishermen, and mining and railway employees. However, there exist national solidarity measures or linkages between different regimes to compensate for these financial imbalances, and such mechanisms cannot be considered as support to a specific sector. Demographic

imbalances in agriculture can be found in many other countries, with the same financial consequences, but the imbalance only becomes transparent because of the absence of a single autonomous social security system.

### **Other**

#### *VAT*

100. Whilst most countries have some special VAT arrangements for farmers, France has a separate agricultural VAT system. There are two VAT regimes in agriculture based on sales volume:

- The *remboursement forfaitaire* (RFA, accounting for 25% of farmers liable for VAT in 1998 although the number of farmers eligible is decreasing steadily as the industry modernises). This regime applies to farm businesses with an average receipts of less than about € 45 700 in two consecutive years. It provides a lump sum reimbursement: the farmer pays the VAT on his purchases without being reimbursed and he does not charge VAT on his own sales. In return, he receives a fixed payment from the State related to sales. This arrangement is not always in favour of the farmer, though official estimates give a positive net benefit to the sector.
- The *régime simplifié agricole* (RSA) is compulsory for farm businesses with average sales of over € 45 700. In this simplified regime if in the year the VAT paid is greater than the sum charged by the farmer, the difference is compensated by the State. In the opposite case, it is the farmer who reimburses the difference. The VAT is thus a neutral factor for the farmer under this regime, just as it is for other professionals and there is no preferential treatment for farmers.

101. The existence of preferential treatment under other taxes and fees has been indicated. Concessions on TIPP **fuel tax** (on diesel) are given to agriculture, and are included in the OECD's PSE data base. Also, in order to expand the outlets for certain agricultural products and contribute towards better environmental protection, the government encourages production of colza diester and bioethanols by exempting a certain volume of "green fuels" from payment of the TIPP. Among all the concessions identified as applying to agriculture, these fuel concessions are the largest single form and constitute some 40% of the total estimated tax expenditures (see table below).

102. There is also a suggestion that concessions exist on payroll taxes (those for both employees and self-employed farmers have been in place since 2001 but earlier examples appear to exist), and for other benefits.

### ***Estimation of Value of Taxation Expenditures***

103. The estimates of tax expenditures used as agricultural policy instruments listed in Table F.1 were published in the report entitled *Evaluation des voies et moyens (Evaluation of ways and means)* concerning proposals put forward by the *Loi de Finances* (Finance Law) (see *Notes et études économiques – n°20, mars 2004*). According to the Ministry of Economics, Finance and Industry, the total amount of fiscal expenditures (revenue forgone) for the year 2000 and which concern agriculture was estimated at € 1.9 billion, compared to approximately € 12 billion of public expenditure on agriculture activities. The most important tax concession measures concern consumer taxes on oil products (TIPP), local taxes and the estimation of agricultural profits to be taxed. This represents about 87% of tax expenditures. It should be noted that any advantage given by the use of the *forfait* system of taxing income has not been included because of the difficulty of measurement.

104. The three measures which have largest estimated values in 2000 were (in order of importance) the decrease in the national consumer tax on oil products (TIPP) applicable to domestic fuel used as diesel

fuel, the exemption from regional and departmental taxes on land on which no buildings have been constructed.(TFNB), and the arrangement for funding investments associated with stabilisation of income — DPI (the more direct income stabilising DPA mechanism was not in operation in the year in question). It should be noted that no value is included here for the value of the systems applied to income taxation.

**Estimates of fiscal expenditures involving agriculture (2000)**

<b>Fiscal expenditure</b>	<b>Amount (€ million)</b>
TIPP - decreasing in tax on diesel fuel	984
TFNB – abolition of local taxes on property	304
DPI – deductions for investment (stabilisation)	282
Concessions on registration rights for rural property	91
ISF - taxes on wealth	26
Financial income	15
Taxes on salaries	56
VAT	58
Subtotal – agriculture (1)	1 816
Benefits to agriculture from forestry	77
VAT (forestry)	2
Subtotal – other sources (2)	79
<b>Total</b>	<b>1 895</b>

*Source:* Ministry of Economics, Finance and Industry.

## **Germany**

### ***Introduction***

105. Preferential taxation provisions exist in Germany. Agricultural and forestry taxation include several benefits relative to business taxation (EFAC 2000, p.110). These include special rules for book keeping, special exemptions and tax rate reductions, a fixed arrangement for VAT, a special valuation base for inheritance tax, and a lower property tax on arable land. However, the main concession is seen as the special treatment of social security contributions (about 88% of all the tax expenditure listed in the table below for 2003).

### ***Income taxation***

106. Income tax is a personal and federal tax. Income tax rates for farmers are the same as for other (unincorporated) businessmen. There is a simplifying and possibly beneficial procedure for farmers to estimate profit ('flat-rate' method) but as its intention is not one of subsidisation it is not contained in the 19<sup>th</sup> Federal Report on Subsidies, though estimates were contained in earlier editions. This "flat-rate" system applies below an area ceiling of 20 ha. Other ceilings are in place for animal production, vineyards and other highly profitable activities. Because the benefiting farms (still about 50% of all farms) are quite small the current total subsidy value of this procedure was formerly estimated to be about €20 million per year. Farms beyond certain ceilings for profit (€ 25 000), turnover or an imputed "economic value" are obliged to use standard bookkeeping rules; this applies to about 35% of all farms, and the share is rising. In addition, there is an intermediate, cash based procedure to estimate profit for those farms falling between the above ceilings to limit the administrative burden on rather small farms.

107. An overt subsidy element is a special tax allowance for agricultural income (€ 1 340) for married farmers in 2001 if the gross income is below € 61 400 (married couples). Companies are normally required to keep accounts and be taxed on this basis.

### ***Property taxation***

#### *Annual taxes*

108. Annual land taxation in Germany, for all kinds of land and buildings, is based on economic values relating to 1964. This is not specific to agriculture and therefore no concession is implied. However, the rate for agricultural land is higher than for other land. The total tax is quite low.

#### *Taxes on transfer*

109. Tax on sales of farms or land with the intended purpose of compensating heirs who give way to the inheriting farmer is lower than the regular tax on land sales. Relative to their market value, land and buildings are generally subject to a lower inheritance tax rate.

### ***Social Security System***

110. Preferential taxation weighs far less in terms of support in Germany than do the subsidies for the social security system which is specific to the farm sector. A special system operates for farmers, their spouses and family members working on the farm (but not other agricultural workers) covering old age pensions, health insurance and accident insurance. As a social flanking measure to cushion structural change, the Federal government subsidises social contributions of active farmers. In addition, subsidies for supplementary benefits are granted to agricultural workers, but these are of very minor importance compared with the other federal funding.

**Other Taxes**

111. *VAT*: farmers are eligible for a 'flat rate' system that is believed to be advantageous. The VAT regime is simplified for the vast majority (more than 90%) of all farms but the subsidy element of these simplified rules appears to be quite low.

*Taxes on inputs*

112. Fuel for agricultural use was taxed at a lower rate and agricultural vehicles are exempt from automobile taxes. Agricultural vehicles are seldom used on public roads and vehicle tax is mainly used to build roads.

**Estimation of the Value of Taxation Expenditures**

113. The Federal authorities make estimates of the budgetary effect of tax and social security measures on the agricultural sector. There has been a change in the way that arrangements for the taxation of income are viewed (with some former concessions now excluded); only the most recent sets of figures from Federal Reports on Subsidies are given below.

**Budgetary effects of tax measures (including social security)  
on the agricultural sector in Germany 1999-2004 (million EURO)  
from the 19<sup>th</sup> Federal Report on Subsidies**

	1999	2000	2001	2002	2003	2004 (plan)
Agricultural income allowance	82.0	82.0	72.0	72.0	72.0	72.0
Exemption from car tax	90.0	90.0	90.0	90.0	90.0	90.0
Allowance on diesel oil tax <sup>1</sup>	459.2	475.9	226.0	235.0	360.0	420.0
Agricultural old age pension scheme	2 232.0	2 165.8	2 291.1	2 322.1	2 337.9	2 348.0
Agricultural health insurance scheme	1 119.0	1 015.9	1 196.9	1 226.3	1 202.7	1 028.2
Agricultural accident insurance scheme	281.2	255.6	255.6	255.6	250.0	250.0
Additional insurance scheme for agricultural workers	12.0	12.3	12.0	13.6	14.6	13.1
<b>Sum</b>	<b>4 275.4</b>	<b>4 097.5</b>	<b>4 143.6</b>	<b>4 214.6</b>	<b>4 327.2</b>	<b>4 221.3</b>

1. The PSE database indicates that the budgetary effect of this measure was more than halved in 2000 and that it disappeared thereafter.

*Source:* BMVEL (2000), BMVEL (2002a), BMVEL (2002b), 19<sup>th</sup> Federal Report on Subsidies of 1 October 2003 Federal German Parliament-printed matter 15/1635.

**Hungary**

114. The OECD PSE database contains items for fuel subsidies and concessions on corporate tax. No other information is available.

## **Ireland**

### ***Introduction***

115. In the tax year 2001, approximately 101 000 farmers (full-time farmers and “trader farmers”) were assessed for tax. In addition, there are about 14 000 farmers who are assessed periodically, so the total number on records to the Revenue Commissioners was 115 000. However, only 40 100 farmers (provisional estimates) were actually liable to pay tax on farming profits (DAFF, 2002, p.107) These farmers are expected to pay € 97 million in tax and € 33 million in social insurance (PRSI) contributions. There are also special social benefits for farmers in Ireland.

### ***Taxes on Income***

116. If the farmer is the sole trader, profits from farming and capital gains on the disposal of certain assets, are assessable to *income tax* and *capital gains tax*. If the trade of farming is in a company, the profits and gains are assessable to *corporation tax*.

117. Profits from farming and market gardening are taxable in the same way as profits from other trades. However, individual full-time farmers may elect to be assessed in the normal way with an accounting period of 12 months for the year of assessment, or on the basis of averaging farming profits and losses over three years of assessment. If the farmer or the spouse also has another trade or profession (except income from farmhouse holidays), they cannot choose the averaging option. If averaging is chosen, the farmer must remain in the system for a minimum of three years.

118. Although not perhaps a concession, it is worth noting that the Irish government gives tax advantages to farmers who reduce pollution from their farms. An earlier scheme was replaced by the Waste Scheme in 1999. Tax allowances in the form of accelerated depreciation allowances are given to farmers who have nutrient management plans and incur necessary capital expenditure for pollution control facilities. In the first year, the farmer can use a special allowance of 50% of the expenditure, limited to a maximum of € 31 743. The remaining balance of the expenditure is written off as normal over the following seven years. The relief covers waste storage facilities (water, slurry and effluent tanks) and certain types of winter housing for cattle and sheep.

119. There are several tax concessions aimed at encouraging land mobility (DAFF 2002, p.101). Among income taxation these include 100% stock relief for young trained farmers for four years after transfer, income tax exemptions for land leased by farmers over 40 years to persons who are not family members. If such an individual person aged 40 years or over (or an individual who is permanently incapacitated by mental or physical infirmity from carrying on the trade of farming) leases the farm to another person, she or he is entitled to a tax deduction with respect to the rental income of € 7 500 if the length of the lease is five or six years and € 10 000 if seven years or more.

### ***Taxes on Property***

#### ***Taxes on transfer***

120. *Stamp Duty* applies to legal and commercial documents relating to transfers of ownership (including gifts), with different rates for residential and other property. However, it is not chargeable on transfers between spouses and is levied at only half the normal rate on transfers of real estate property between relatives (such as parents to children). There are exemptions or reliefs from the stamp duty, for example the transfer of land to a young trained farmer. The relief, first introduced in 1994, is now 100% if

the beneficiary has appropriate agricultural training and is given when land is transferred as a gift or by sale to a farmer under 35 years of age on the date of execution of the deed of transfer. The transferee has to make a declaration that she or he, for a period of five years, will not sell or give away the land, and that she or he will spend not less than 50% of her or his normal working time farming the land. If the land is transferred into joint ownership, all of the joint owners have to be young trained farmers. If the joint persons are husband and wife, only one of them has to satisfy the rules. The relief will be claimed back by the government if the land is disposed of within five years.

121. *Capital gains* arising on the disposal of assets (gift, sales but not transfers between spouses) are chargeable to capital gains tax (but for companies are subject to corporation tax). Selected assets are exempt from tax liability, e.g. private assets as private residences (in certain circumstances). The rules are the same for farms as for other businesses, but the rules are somewhat different for disposal out of the family and disposal within the family. If the disposal is out of the family and the seller is 55 years or more, there is full relief up to certain limits. For disposal to the seller's child there is no limit (*i.e.* 100% relief). The same rules apply for disposal to a niece or a nephew who has worked full-time on the farm or in the business for the previous five years.

122. *Capital acquisition tax* applies on both gifts and inheritance taxes. *Agricultural Relief* is available for real estate, woodland, livestock, machinery, etc. Ordinary gift and inheritance tax is calculated at the market value, but for agricultural property the agricultural relief reduces this value to "agricultural value". The agricultural relief reduces the market value of the agricultural property by a flat rate of 90%, and is intended to encourage transfers to younger farmers. Only farmers can use the agricultural relief. There are provisions in the rules for relief to be clawed back if real estate is not held for prescribed periods after transfer. If agricultural assets don't qualify for agricultural relief, they may qualify for business relief, introduced in 1994, nearly 20 years after the agricultural relief. The business relief reduces the market value of business property by a flat rate of 90% in the same way as the agriculture relief.

### ***Social insurance system***

123. There are no special concessions in terms of contributions for farmers, as self-employed or as employers. However, as in some other countries, a special scheme is applied to farmers (The Farm Assist Scheme). This is a means tested social insurance scheme for low income farm households.

### ***Other***

#### *VAT*

124. Many agricultural outputs are zero rated. VAT registration is compulsory above certain thresholds. Farmers below this can operate on a *flat-rate* basis and are entitled to take as income an addition of 4.8% of the price when selling to VAT-registered individuals or firms with legal status. This compensates farmers for VAT paid on business inputs and aims to be VAT neutral.

#### *Motor taxation.*

125. Farmers pay a reduced rate for tractors that are only or mainly used on the farm.

### ***Estimates of tax expenditure***

126. A press statement by the Department of Finance, Government of Ireland, issued in relation to the budget 2000 (Tax Strategy Group Papers – TSG 99/48) contained the following "estimates of costs of tax relief in respect of farming income"

*Capital allowances (includes capital allowances for farm pollution control): 1997/98*

- Plant and machinery: £48.8m.
- Industrial buildings: £15.5m.
- Total: £64m.

127. *Stock relief 1999* (a general relief of 25% and a special incentive relief of 100% for certain young trained farmers). £1.8m

## Italy

### *Introduction*

128. Of the 2.3 million farms in Italy, 75% possess less than 5 hectares of Utilisable Agricultural Area (UAA). Average UAA per farm was 6.4 hectares. About 96% of Italian farms are managed directly by the farmer. Of this percentage, nearly 80% are operated by the farmer and his family.

129. In Italy, tax revenue is distributed among the state, regions, provinces and communes.

130. Taxation of persons on the basis of certain standards instead of total net income has a long tradition in Italy. It applies both to agriculture and forestry and other types of business. Until 1998, the standard system included 45 business sectors but in 2001 the system expanded to include about 120 business sectors. Originally the standard system was a system for small enterprises, but in some business sectors such as the restaurant sector, the upper limit for turnover is about € 35 million.

131. According to INEA (2000, p.55), the Italian system for taxation of agriculture is special in that it is a system in which normal and special regimes co-exist. INEA points out that the Italian agriculture sector has great tax advantages in comparison to other industries:

*“The agricultural sector displays enormous disparities with respect to the rest of the economic system for other parameters characterising the structure of public taxation. First, its composition is dominated by social contributions as compared with revenue from taxes, although this phenomenon has decreased since 1994 with the introduction first of ICI and then of IRAP; secondly, as regards wage labour, the lower rates for social security contributions, together with a smaller share of IRPEF, due to a lower level of taxable income and the presence of casual workers, means that the difference between the overall cost of labour for the enterprise and the net income received by the worker is far less in the agricultural sector than elsewhere, and the difference is considerable. Lastly, an equally significant gap is apparent for tax pressure on profits, another element of the primary division of value added, and an index of the ability of the firm to generate profits from its style of management. In the agricultural sector this changed from 13.9% in 1990 to 12.2% in 2000, whilst in the other sectors there was a strong increase from 9.1% to 21.4%. This difference is largely due to the influence of forms of taxation determined on the basis of the cadastral register.”*

133. The two most important causes of the low tax burden in the agricultural sector are the lower rate of social security contributions and the taxation on the basis of the cadastral register. INEA (2000, p.57) draw this conclusion in the chapter on fiscal policy and agriculture:

*“The conclusion to be drawn from this analysis is that the system of concessions has in most cases only a support function, through considerable savings in taxes for weaker enterprises and those which may be more inefficient from the point of view of the capacity to generate profits. The absolute value of concessions indicates how much costs would rise if the ordinary norms applied; the trend which has been analysed, seems to indicate that the impact would be much greater for farms with low profitability.”*

### *Taxes on income*

134. Natural persons residing in Italy must pay personal income tax (*Imposta sul reddito delle persone fisiche* — IRPEF) on both regular and occasional income. IRPEF is basically a state tax, but since 1998 a part of IRPEF is allocated to regions and municipalities

135. Personal income tax is based on a progressive system composed of six categories of income:

- Income from real estate properties (income from agriculture, forestry and other estate property including income from buildings).
- Income from capital investments.
- Income from wages and salaries.
- Income from professional and independent personal services.
- Income from trade and industry.
- Income from other sources.

Taxable income for each of the above categories is determined by its own set of rules. The tax basis is the aggregate income from the six categories of income.

136. Income from agriculture and forestry is defined as income from real estate properties and placed in category one. Real estate properties in Italy are registered either in the property land registers or in the urban building land registers. If income from properties in these registers is registered with an assigned yield, the income is taxable in income category one as income from real estate properties. Income from agriculture and forestry is taxable in this way. Yields from other real estate properties in the land register which are not determined on the basis of an assigned value, are taxable in income category six as income from other sources (*e.g.* income from mines, salt works, lakes, ponds, etc.).

137. Thus, the taxable agriculture and forestry income is determined on the basis of the land register yield and not on the basis of the actual yield (or income generated). The yields in the land register are estimated as average values of land and building with input of usual work and capital. The registered values in the land registers are set very low which results in a preferential treatment of agriculture and forestry when it comes to taxation

138. The income from real estate is deemed, in principle, to belong to the person who has the right to use the estate and not to the owner (if these are different persons).

139. Tax on incomes of legal persons (*Imposta sul reddito delle persone giuridiche*) is a state tax. The basis of assessment is total net income from companies and other legal persons. There are some exceptions from the tax liability, *e.g.* incomes of agricultural cooperatives, small-scale fisheries cooperatives, or labour and production co-operatives under certain conditions. The tax rate is a flat 37% on total taxable income.

### ***Taxes on Property***

#### *Annual property tax*

140. In 1992, the communal tax on immovable property (*imposta comunale immobiliare—ICI*) replaced the two previous taxes: the communal tax on appreciation of immovable property (*Imposta comunale sull'incremento de valore degli immobili—INVIM*) and the local income tax on real estates (*Imposta comunale sui redditi—ILOR*). This tax is a local (municipal) tax. The tax is estimated for a calendar year but is payable on a monthly basis. Whether the property was in use in the period or not has no consequence for the tax computation. The rate is fixed by the municipality and may not be less than 0.4% or more than 0.7%.

141. Some kind of immovable properties are exempt from this property tax:

- Agricultural properties in mountain areas and hill areas (over 700 meters as well as selected municipalities, e.g. all 116 municipalities of South Tyrol).
- Cultivable properties of agricultural family businesses or agricultural enterprises; and
- Agricultural residential buildings.

142. The tax base of ICI for agricultural properties and buildings are the estimated cadastral values in the land registers or in the urban building land registers. The cadastral values are then multiplied by different factors (75 for agricultural properties, 34 for retail businesses, 50 for offices and industrial buildings and 100 for private dwellings).

143. For agricultural properties there is a tax-free basic deduction of € 25 823. Since 1998 the tax-free basic deduction is only available for full-time farmers. Since 1997 taxpayers obtain a deduction in the ICI-tax of between € 103 and € 258 for their main dwelling.

#### *Taxes on transfers of property*

144. *Stamp duty (Imposta di bollo)* is payable on the deeds, documents and records listed in an official tariff. There are some exemptions; for instance, deeds and documents relating to the granting of agricultural loans and of EC and national aids to the agricultural sector. The rates are a combination of fixed and proportional rates.

145. *Succession and gift duty (Imposta sulle successioni e donazioni)* is a state tax payable jointly by the heirs, donors and donees. Tax is applied on the basis of two progressive scales. The first is applied to the overall value of the assets on net inheritance and the second is applied to each share and to gifts, and is determined by the degree of relationship between the deceased and the heirs. The first scale ranges from 3 to 27%; the second ranges from 3 to 33%. Under the second scale, certain amounts are exempted for relatives in direct line.

#### ***Social insurance system***

146. Only information prior to 1988 is available on the social security system. Public social security is composed of sickness insurance, child benefit, accident insurance, and old-age pension. The farmers' contribution is 6.5% of the income tax in the previous year. The rate for farmers in mountain areas is reduced to 5.5%. In addition to the payment from the taxpayer, the government supports the social security system. Government transfers to the pension fund represents about 59% of the total, but it gives no contribution to the accident insurance element.

147. After making payments for 15 years, farmers can claim a pension from the age of 65 for men and 60 for women. Pensions were about € 350 per month in 1987, with special bonuses for spouses and children. The payment to farmers in mountain areas is about 40% lower than in other areas.

#### ***Other taxes and fees***

##### *Motor fuel taxes*

148. Motor fuels and other petroleum products are generally subject to tax on mineral oils (*Imposta di fabbricazione sugli oli minerali*). This is a state tax. However, there are many exemptions and reduced rates; for instance, the reduction is 22% of the full tax for use of a certain quantity of fuel in agriculture, horticulture, forestry and fish farming. The reduction in the tax on motor fuels is important for farmers: "From a purely quantitative point of view, this measure is the most important "tax saving" attributable to

*the agricultural sector: in accounting terms alone, it cuts the cost of intermediate inputs by about 13–14%.”(INEA 2002, p.56).*

*Value added tax*

149. VAT (*Imposta sul valore aggiunto*). The main rule is that anyone who wishes to set up a business (including handicraft) or a profession must be VAT-registered. Beside the main scheme, there are special schemes for some categories of business, smaller trades and farmers.

150. Regional tax on productive activities (IRAP) (*Imposta Regionale sulle attività produttive*) is charged on the value of net production resulting from the business activity within the region. The tax revenue is distributed among the state, regions, provinces and communes. Agricultural producers with a turnover less than € 2 582 are among other selected categories of natural and legal taxpayers who are exempt from liability to pay IRAP. For farms situated in municipalities in mountain areas, the limit is € 7 746. Those limits for turnover come into force only if the farmer has claimed the special arrangement for exemption from compliance with the legal framework of VAT.

## Japan

### *Income taxation*

151. Agricultural income receives preferential taxation treatment in Japan's income tax system. The agricultural income tax rate is lower than the withholding income tax rate, which applies mainly to wage and salaries. Honma notes that the income tax rate on on-farm income was 50% less than on the off-farm income of agricultural households in 1983 (Mulgan, 2000). As a result, the average income tax burden of agricultural households was about 80% that of salaried worker households between 1975 and 1983 (ABARE, 1988).

152. The income taxation system includes taxation on capital gain from the disposition of land in Japan. Various tax concessions are given to dispose of farmland in order to encourage agricultural land transfers (OECD, 1998).

### *Property taxation*

#### *Annual taxes*

153. The municipal Fixed Assets Tax, a tax on land holdings, is levied on the value of assets at a standard rate of 1.4%. Preferential assessment is provided for farmland under this tax regime. In general, the taxable base for land assets — *Appraised Value for Fixed Assets Tax* (AVFAT) — is the normal market value, while farmland is eligible for preferential assessment with the AVFAT assessed at 55% of the normal market value (OECD, 1998), on the grounds that the “trading value in real farmland market are below the normal market value” (Japan comment, 7/2004). Farmland is also exempted from the Land Value Tax and the Special Land Holding Tax (municipal). The former is levied on land assets, as assessed according to their normal market values, at a rate of 0.3%; this tax has been frozen since the 1998 fiscal year. The latter is taxed as 1.4% of the acquisition cost of land minus the taxes imposed on that land by the Fixed Assets Tax; this tax has been frozen since the 2003 fiscal year.

#### *Taxes on transfers*

154. A Real Estate Acquisition Tax is imposed by municipal governments upon the acquisition of real estate, calculated as 4% of the AVFAT; for farmland the rate has been reduced to 3% for the period 1 April 2003 to 31 March 2006. Various forms of tax relief are incorporated into this tax to encourage transfer of farmland in line with structural adjustment programmes. For example, where a farmer purchases farmland in accordance with an authorised plan, he is eligible to claim the base deduction against the purchased farmland of up to 1/4 to 1/3 of its AVFAT. Farmers in hilly and mountainous regions are also eligible, under certain conditions, for similar preferential tax treatment under another public programme. A Special Land Holding Tax is also levied upon the acquisition of land. This tax is calculated as 3% of the acquisition cost minus taxes already-paid on the same land under the Real Estate Acquisition Tax provisions. However, farmland is generally exempted from this tax (OECD, 1998).

155. Another farmland tax concession is provided under Inheritance Tax. Preferential base assessment and deferral of taxation are allowed. For example, a successor who uses the inherited land for farming is given a “grace” (deferment) on the inheritance payment. Moreover, the tax is exempted under the following situations: the successor has worked on the inherited farmland for 20 years; the successor died; the successor inherits the farmland as an advance in a single unit.

156. The valuation of an inherited estate is usually based on its normal market value; in principle, this applies to farmland as well as other types of land. Farmland in rural (agricultural) areas is evaluated at AVFAT, despite being adjusted by actual price records derived from other farmland transactions in the

region. Valuation of farmland located in urban or peripheral zones may be determined, on the other hand, according to the observed price of residential land nearby. Farmland can be exempted from this standard valuation, however, through an alternative approach which is almost identical to current methods of value assessment. An Agricultural Investment Price is estimated and used in place of a market price. It is defined as the hypothetical market price on farmland on the assumption that the land will be permanently devoted to agricultural use. As a result of this preferential arrangement, the assessed value of farmland as a taxable base tends to be much lower than the actual market price (OECD, 1998). In addition, if the successor has worked on the inherited farmland for twenty years, inheritance tax on that farmland is waived (Mulgan, 2000).

157. Such preferential treatments make property taxes on agricultural land much lower than that on residential land. Nakajima, for example, is an interesting case as taxes on agricultural land are only 2-3% of those on neighbouring residential land (Mulgan, 2000). If, however, the farmland is located in metropolitan areas, part of the tax concession for that farmland is removed. Farmland in 196 municipalities neighbouring the three largest metropolitan areas (Tokyo, Osaka and Nagoya metropolitan districts) cannot benefit from tax concessions associated with Fixed Assets Tax, Land Value Tax and Inheritance Tax, unless the land is designated as a “productive green” area. These areas can be zoned by the municipal authorities as part of urban land, the requirement for which includes that the owner agree to let the land stay in agricultural production for at least 30 years.

158. The situation concerning tax concessions on property is summarised in the following table.

## Japan: summary of tax concessions on property (farmland)

	Standard tax rate	Farm (farmland) tax rate	Note
<b>Annual taxes</b>			
Fixed Asset Tax (land holding tax)	1.4%	1.4%	The Farmland Appraised Value for Fixed Assets Tax (AVFAT) is adjusted to 55% of the normal market value, because their trading value in the real farmland market is below the normal market value.
Land value Tax	0.3%	Exemption	This taxation has been frozen since the 1998 fiscal year.
Special Land Holding Tax	1.4%	Exemption	This taxation has been frozen since the 2003 fiscal year.
<b>Tax on transfers</b>			
Real Estate Acquisition Tax	4.0%	4.0% (3.0%)	This tax is calculated as 4% of the same AVFAT as Fixed Asset Tax. However, this tax rate is set as 3% from 1st April 2003 to 31st March 2006.
Special Land Holding Tax	3.0%	Exemption	This taxation has been frozen since 2003 fiscal year.
Inheritance Tax (Gift Tax)			<ol style="list-style-type: none"> <li>1. If the successor declares his or her intention to continue agricultural activity on the farmland for more than 20 years, the Inheritance tax, whose payment has already been postponed, may be exempted. If the successor ceases to use the land for agriculture within 20 years from the date of inheritance, he or she must pay the postponed tax together with the interest on it.</li> <li>2. In the event that the successor dies within 20 years of inheriting the land, his inheritance tax is exempted (Gift Tax).</li> <li>3. In the event that the successor is given the inherited farmland in a single donation prior to his or her death and he is given a grace about the gift tax payment, his inheritance tax is exempted.</li> </ol>

**Social security system**

159. For farmers aged 60-65 years old, the Farmers' Pension Fund System provides a supplementary pension under certain terms and conditions, in addition to the benefits from the National Pension Scheme. One of the objectives of the farmers' pension system is to expand the average size of farmland by encouraging older farmers to retire from agricultural activities thereby making the farmland market more fluid (ABARE, 1988). However, since pension levels are not high enough to encourage such early retirement, it is not an effective scheme to increase farm size (ABARE, 1988).

## **Korea**

### ***Introduction***

160. Agricultural taxation in Korea is comprised of state and local taxes and includes income and property tax. Income tax includes agricultural income tax, general income tax and corporate tax. Property tax is classified into property tax, aggregate land tax, inheritance and gift tax, and capital gain tax. Other taxes are also imposed, such as value added tax and stamp tax.

161. Through the Local Tax Law of 2000 (29 December 2000), the previous farmland tax was changed to the agricultural income tax, a landmark change 50 years after the introduction of the land tax. The former farmland tax was a local tax, while agricultural income tax is levied by the central government. Before the reform, the total tax revenue, the average tax payment per farm household, and the number of taxpayers had been decreasing yearly since 1985. This had the effect of reducing the tax burden on farmers but also led to a decline in the revenue of local government.

162. The farmland tax was levied on revenues gained from working the farmland, and not on the value of land property. It was based on the cadastral system, *i.e.* on a stipulated value of selected items such as land area, livestock numbers, etc. The main difference brought by the change to the agricultural income tax is that the income derived from developing facilities (*i.e.* buildings), such as for greenhouse production (flowers, mushrooms and vegetables, etc.) and the livestock industry, is now subjected to agricultural income tax, whereas in the past they were subject to general income tax. The reform expected to increase the number of taxpayers in the agricultural industry.

### ***Income taxation***

163. The “agricultural income tax” is imposed on the income from cultivating rice, special products such as fruits, tobacco, ginseng, etc. Income from the development of facilities to grow bean sprouts, vegetables, flowers and fruits in greenhouse are subject to agricultural income tax. However, the income from breeding livestock, gardening, trees, hunting, and related services is (still) covered by the general income tax.

164. The basic framework of farmland tax has been carried over to the agricultural income tax. The definition of taxable income has been expanded in the current system. Basically, the agricultural income tax has a tax base similar to the general income tax and is characterised by progressive tax rates.

### ***Property taxation***

#### ***Annual taxes***

165. The major property tax in agriculture is the aggregate land tax. The property tax on farmland was introduced in 1977 and changed to the current aggregate land tax in 1990. The purpose is to prevent speculation in land through the differentiation in tax rates according to ownership. Lower rates are levied on farmland meeting specific conditions while higher rates are applied to farmland of absentee landlords. The policy goal is to prevent speculative transactions in farmland.

#### ***Taxes on transfers***

166. Farmland is exempted from inheritance and gift tax up to a certain limit when the farmland is inherited by the farmer’s direct descendant. The transfer tax also has an exceptional exemption stipulation granted under strict conditions that the beneficiary cultivate the land for a long period and reside on the farm. The goal is to encourage the continuity of farming.

167. *Stamp tax.* This western-style stamp duty has been implemented in various forms: state taxes (such as registration tax and acquisition tax) and as a municipal tax (licence tax), the latter levied on the purchase or transfer of properties such as real estate. In certain cases, agricultural documents and the transfer of productive properties are exempt from stamp tax.

### ***Social security system***

168. The social security system in Korea has two pillars: the national health insurance and the national pension system, both of which are public systems. Farmers can benefit from both programs. The current national health insurance program was renamed in 2000 following the merger of the employer medical insurance with regional medical insurance.

169. The farmers' and fishermen's pension was introduced in 1995 within the national pension scheme. The national pension is funded by personal contributions and the government budget. The pension is granted to senior citizens, handicapped people or the family of the deceased. The National Basic Life Guarantee System, introduced in 1998, is also accessible to farmers. Households whose incomes are below the minimum standard of living are eligible for grant-in-aid. However, the number of beneficiaries among farmers is very small since the criterion used is not favourable to inhabitants of rural areas.

### ***Other taxes and fees***

170. Agricultural transactions are generally subject to *value added tax*. However, there are some reductions or exemptions for productive facilities or inputs such as agricultural machinery, fertilizers and fuels. The main purpose is not to discourage agricultural production activities.

## **Netherlands**

### ***Introduction***

171. In 2000, there were about 97 500 farms in the Netherlands. Most are one-man businesses but in family situations, especially when transferring a business, partnerships are common. The number of (limited) companies is limited and they are primarily found in the glasshouse sector. Environmental protection is very important in the Netherlands and this is visible in the tax system. Apart from the Agricultural Allowance (*Landbouwwijstelling*), which exempts capital gains on land from taxation, hardly any facilities exist that specifically apply to the taxation of incomes in agriculture. However, there are exemptions for forestry and agricultural real estate receives special treatment.

### ***Taxes on income***

172. The taxable income for entrepreneurs is reduced by an entrepreneurs' allowance, though this is not specific to agriculture. This allowance is a generic regulation made up of the self-employed allowance, a research and development allowance, a co-operation allowance and a cessation of business allowance. Entrepreneurs can make use of a fiscal reserve to provide for their old-age pension.

173. Income averaging is allowed, but this is not a concession restricted to agriculture. If a business has an operating income that varies from year to year during a three-year period, it may opt to use the averaging facility. This facility allows a business to calculate an average operating income on the basis of the results achieved in those three years; the tax rate is then applied to those new amounts, which may lead to a refund of taxes paid.

174. In addition to the agricultural concession on capital gains (which would otherwise be subject to income tax) there are some specific income tax facilities that are relevant the agricultural sector. These are:

- Forestry exemption: both positive and negative results from the business of forestry are exempt from income tax. This means that profits are not taxed but also that losses are not deductible.
- No tax is levied on specific woodland and nature subsidies.
- A specific tax allowance is given for investments in the environment, energy and small businesses. This allows a deduction of a portion of the environmental investment (not uniquely for the agricultural sector).

175. In addition, there are a number of generic regulations providing tax facilities for certain green investments. There is a special agriculture category for loans to entrepreneurs investing in specific environmentally friendly operating resources and projects such as organic farming (though this is not strictly a tax concession).

### ***Taxes on property***

#### ***Annual property taxes***

176. Municipalities annually levy a real estate tax (*onroerende zaakbelasting*). The tax consists of (i) a part levied on owners of immovable property and (ii) a part levied on users of immovable property. Where the owner and the user are the same person, that person is liable for both parts of the tax. Real estate tax is deductible. Agricultural land, forestry, manors, nature and greenhouses are exempt from real estate tax.

*Taxes on transfers*

177. *Conveyance tax:* Real property transfer tax is levied on persons who acquired immovable properties in the Netherlands. The value of the immovable property is taxable at 6%. For the acquisition of farmland there are several exemptions as well as for the acquisition of business real estate by children from the parents. There is a double taxation relief with regard to the inheritance and gift tax.

178. *Inheritance and gift tax:* This tax is imposed when property is acquired by gift or inheritance if the donor or the deceased was a resident of the Netherlands. The inheritance tax is levied on the beneficiary. The taxable base is the fair market value of all property received fewer liabilities. Inheritance and gift taxes are levied at the same progressive rates. Progression depends on two factors, the proximity of the relationship between the deceased/donor and the beneficiary/donee and the value of the property received. In case of a parent-child relationship, the rates range from 5 to 27% (over € 761 800).

179. *Capital Gains:* The Agricultural Allowance (*Landbouwwijstelling*) exempts capital gains on land from taxation. Changes in value resulting from inflationary development or boom period are exempt. In principle the gains made by a farm on account of the value of land (including land which has been built on) remain free from tax. However, the law provides for two exceptions to this:

- Changes in value arising in the course of business (*e.g.* irrigation) and;
- Non-agricultural changes in the value of land. Only changes of the value of the land that the land would have with an agricultural continuation are exempt. Anything above this value is taxable (by income tax).

*Social security contributions*

180. Social security contributions are included in income tax.

*Other taxes and fees**Motor fuel tax*

181. There is a tariff differentiation in the excise duty on mineral oils depending on the use of oil as fuel for vehicles on public roads (white diesel) or other uses such as heating and agricultural tractors (red diesel). An energy tax applies to red diesel. The reason for this differentiation is to exclude vehicles that only use roads to a very limited extent.

*VAT*

182. VAT is levied on all entrepreneurs, liberal professionals and importers. Deliveries of goods and services rendered are taxable at two rates, 6% and 19%. The basic rate is 19%. Basic goods are taxed at 6%, which explains why most agricultural products and necessities are taxed at 6%. However, agriculturists automatically make use of the Agricultural Arrangement (*Landbouwwegeling*). In that case, no VAT registration is necessary and no VAT is transferred to the Treasury. If farmers make use of the special regulation they are not eligible to charge VAT and may not deduct the VAT they have paid themselves. Entrepreneurs buying agricultural products from these farmers receive a fixed-rate deduction of 5.1%. However, farmers may opt for full taxation.

*Energy tax in glasshouse horticulture*

183. An Energy Tax applies to all large-scale users of energy (natural gas, other gases, electricity and certain mineral oils). The tariffs depend on the amount used, decreasing with greater use. There are special

facilities for glasshouse horticulture. A low tariff has been agreed for heating used to assist the growth of horticultural products.

184. Environmental taxation is levied on waste matter and the withdrawal of groundwater (in addition to energy and fuel covered above). The taxable person is the person who withdraws the groundwater, including farmers.

## New Zealand<sup>15</sup>

### *Overview*

185. Tax revenue from the agriculture sector is an important component of government revenue. New Zealand is committed to a broad based tax system that includes effective taxation of the farming sector. In the few instances that the agriculture sector receives treatment that varies from the standard business tax rules, it is generally on the grounds of minimising compliance costs, although there is also a provision for income spreading. In addition, there are a number of “historical” provisions that were introduced to provide concessions, but are now judged mainly to have compliance cost benefits by way of both simplified accounting and clarity in areas of uncertainty (for example, as to whether a capital or revenue treatment is the correct treatment of a particular expenditure). The real tax effect of these is judged to be negligible. These provisions are contained in the Income Tax Act 1994.

186. No assistance is accorded to the agriculture sector in the areas of social security taxation, property taxation, taxation on transfers, or value added tax. These areas are described in the following sections.

### *Income taxation*

187. The following are provisions in the Income Tax Act 1994 that are specific to agriculture. However, only the income equalisation scheme can be considered to be a special treatment for agriculture (with fishing and forestry)

188. *Interest Derived from a Farm Vendor Mortgage or Finance Bond (Section CB 1)*. Under section CB 1, 50% of interest from a farm vendor mortgage or a farm vendor finance bond is exempt income. This dates back to the 1980s and earlier. There are no bonds outstanding and virtually no loans outstanding.

189. *Exempt Income of Veterinary Clubs and Herd Improvement Societies [Section CB 4(f-g)]*. These exemptions are historical. In the farming context they are not of any significance. The main advantage lies with the ability of these bodies to effectively re-invest their total profits in the provision of necessary infrastructure (buildings, equipment, vehicles, etc). Interest on borrowings for such infrastructure, and associated costs of depreciation and repair/maintenance are not tax deductible. The concession is effectively one of allowing these activities to grow at a faster speed (due to the ability to reinvest all net profits earned rather than net profits after tax). There is no distortion in investment decisions as a result of this measure, as the exemption applies to all income earned from the club or society. Over time, these exemptions are likely to be withdrawn.

190. *Immediate Deductibility of Some Farm Development Expenditure (Section DO 3)<sup>16</sup>*. Section DO 3 lists various categories of expenditure that are allowed as an immediate deduction. For the most part, the items listed would be deductible under normal tax principles, but, without this provision, there would be considerable uncertainty as to deductibility due to there being some arguments that, in some circumstances, the expenditure could be viewed as capital in nature. The cutting of scrub reversion is a good example of this. It may be deferred for several years and then undertaken in a single operation, in preference to an annual (and possibly more expensive) cutting programme. In this case, it may be viewed more as capital

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15. Prepared from material supplied by Inland Revenue Department, Treasury, and Ministry of Agriculture and Forestry, 6 August 2004.

16. The Government has added to its tax policy work programme a project to define better the scope of this provision. This work is likely to more tightly focus the provision to reduce the scope for arguing that expenditure that is clearly capital in nature qualifies under this provision.

expenditure rather than repairs and maintenance (R&M). Section DO 3 removes uncertainty around this type of issue. Section DO 3 also provides for deductibility of fencing. While most fencing-related expenditure is of an R&M nature, the erection of new fences is allowed as an immediate deduction under this section, and should be otherwise capitalised and depreciated under Schedule 7 Part (A). However, it is noted that new fencing *per se* does not constitute significant expenditure on most farms. It is unlikely to be greater than 5% of R&M expenditure as an annual average. The financial advantage is negligible – the primary benefits are simplicity and minimisation of compliance costs. This provision provides virtually no assistance to agriculture beyond the overarching goals of compliance cost reduction and certainty of treatment.

191. *Depreciation loadings.* The Income Tax Act provides that depreciation rates on almost all assets may be loaded by a 20% factor. Farming benefits from this no more and no less than any other sector.

192. *Expenditure on Tree Planting for Agricultural Purposes (Section DO 7).* Tree planting up to the value of USD 7 500 per annum is immediately deductible for planting and maintaining trees. The tax benefit of this measure cannot be measured. Maintenance expenditure is generally deductible under normal tax principles, while to the extent that planting of trees is simply replacing dead trees, this expenditure is also potentially deductible under normal rules. The primary benefit of the measure is compliance cost reduction, in that the determining of the capital/revenue nature of individual tree planting would be excessive.

193. *Expenditure Spreading Associated with the Purchase of Fertiliser and Lime [Sections EK 1 and OF 2(2)].* The optional spreading provision for fertiliser and lime (between a current income year and any of the succeeding four years) was introduced to reflect the capital nature of fertiliser applications – the effects of which could have ongoing productive effects over several years. It is almost never used and has no impact of any real sort on farmers.

194. *Valuation of Livestock for income tax purposes (Section EL 1).* Farmers are provided the ability to value livestock at market value and cost. Most livestock is included in the “herd” scheme which treats the entire herd as a capital asset. Gains and losses in the herd are tax exempt; sales of animals out of the herd are taxable; and purchases are deductible. Broadly, this treatment is consistent with the herd being treated the same as a machine for tax purposes. Farmers may value stock using either actual costs or national standard costs (the latter is a lower-compliance-cost mechanism). Obviously, there will be winners and losers under these options, but no assistance is provided.

195. *Income Equalisation Scheme – Income Spreading and Tax Deferral for Agriculture, Fishing and Forestry [Sections EL 1-10, EI 17, EJ 1, and DO 5 (Sch 7)].* The Income Equalisation Scheme (IES) recognises the fluctuating nature of primary sector incomes over a period of years, particularly fluctuations caused by factors beyond the control of the producers including adverse climatic effects, the value of the New Zealand dollar and market conditions overseas. The IES allows the opportunity for income smoothing. It pays a pre-tax interest rate of 3% pa on a daily basis, which is virtually always below the market interest rate, even after allowing for the associated tax considerations (including that of being paid on the gross deposit and not on the post-tax equivalent value of the deposit). The income smoothing aspects allow some farmers to reduce marginal tax rates in very good years. However, the benefits out of this are generally small: 0.25% of average annual income over the ten years from the 1989/90 year for livestock farmers, potentially similar for horticultural businesses. More use of the scheme is made to address the impacts of adverse climatic events and the like. Beyond the IES, there are no income spreading provisions. As stated earlier, the government has a commitment to a broad-based tax system and this requires the payment of tax as the income is earned.

***Property taxation******Annual taxes***

196. New Zealand does not have any annual national land taxes based on land values. Local government bodies (councils) charge rates for local services that are normally based on land values, but these provide no assistance to the agriculture sector.

***Taxation on transfers***

197. New Zealand does not have stamp duty on sale of property or shares. New Zealand also does not have an inheritance tax. New Zealand has a gift duty, which applies equally to a gifted farm as to any other large asset. In practice, the legal structure adopted by many taxpayers, including farmers, allows for gifting with no resulting liability. This provision provides no assistance to the agriculture sector.

198. *Capital gains tax:* Although New Zealand does not have a formal capital gains tax, several specific forms of capital gains are taxed. The sale of land is typically free of tax.

***Social security taxation***

199. New Zealand provides no tax concessions to the agriculture sector through its social security system.

***Other taxes and fees***

200. *Value Added Tax:* Farming is provided the same treatment as other industries under New Zealand's goods and services tax (GST – a value added tax) rules.

201. New Zealand does not have a payroll tax. There is a “pay as you earn” (PAYE) system that taxes employees and contractors as they earn income from employers. The labour income earned by those working on farms is treated the same as any other income source for tax purposes.

202. New Zealand has an employer levy to meet the costs to employees of workplace accidents. This levy is set on a risk-weighted basis, and no concession is made for agriculture. A standard levy is imposed on employees to cover non-work-related accidents. This is not risk-weighted. Self-employed people (this category includes many farmers) pay a levy to cover both their work- and non-work-related accidents.

## **Norway**

### ***Introduction***

203. Taxes in Norway are payable both to local and central government and an important goal of income taxation is to even out net incomes after taxation. This is achieved through certain general basic deductions and through high so-called top taxes. A balancing out is also achieved through the net wealth tax.

204. Agriculture is generally supported in Norway by expenditures from the national budget, but there are also specific exemptions from the general tax regulation for the agricultural sector. Farmers benefit from the social security system in the same way as other residents but are subject to a lower social security tax rate.

### ***Income taxation***

205. Individual income tax on earned income is a progressive tax which is separated from income tax on capital, which is a flat rate tax. Individual capital income is subject to income tax on interest, dividends and capital gains including income from the petrol industry. Taxes on capital also include the net wealth tax.

206. The main tax exemption which agriculture businesses benefit from is the possibility of a special deduction from the taxable business income of a maximum of NOK 61 500. Agricultural production can also deduct from the business's taxable income the expense of breaking new land. Another benefit is the exemption from payment of taxes on profits from the sale of an agricultural property if the owner has owned the property for more than ten years. If the property is sold between five and ten years after the purchase, a fifth of the profit is exempt from tax for each year exceeding five years. The tax exemption concerns land, buildings, including private houses and milk quotas, but not machinery, inventories and livestock.

### ***Property taxation***

#### ***Annual taxes***

207. Property tax is a municipal tax which means the municipalities decide if the properties within a certain region are subject to a property tax and, if so, the rate of that tax. In 2003, 232 of the 434 municipalities in Norway applied the property tax. The tax rate can be at a minimum of 0.2% and a maximum of 0.7% of the rateable value of the property. For agriculture and forestry, the rate can be a maximum of 0.4% of the rateable value of the property.

#### ***Taxation on transfer***

208. Spouses are exempt from the tax on inheritances and gifts. Valuation is normally based on the market value, except for agricultural property which is valued at a lower value, normally at 75% of the sales value.

### ***Social security system***

209. The Norwegian system of social security is mainly financed by taxes and a national insurance scheme. Social benefits are financed from municipal budgets, while the National Insurance Scheme is financed by employee and employer contributions and state contributions which come from government tax revenues, taxes on oil and gas production as well as other sources. Some revenues from the petroleum

industry are deposited in a fund to cover future social benefits. All wage earners contribute a fixed percentage of their earnings by paying the national insurance tax and employers contribute by means of a payroll tax. The contribution rate of agricultural businesses is 7.8% of income, while the rate for other business incomes is 10.7% up to a certain amount and thereafter 7.8%.

210. Persons insured under the National Insurance Scheme are entitled to old-age, survivors' and disability pensions, basic benefit and attendance benefit in case of disablement, rehabilitation benefits, occupational injury benefits, benefits to single parents, cash benefits in case of sickness, maternity, adoption and unemployment, medical benefits in case of sickness, and maternity and funeral grant.

***Other taxes and fees***

- The Storting (the Norwegian parliament) decides the VAT rate for each year in the annual fiscal budget. The standard *VAT* rate is 24%, but a reduced rate of 12% applies to food. In the case of supply of foodstuffs as part of the supply of services connected with the serving of such foodstuffs, VAT is calculated at 24%. Registered persons within agriculture, forestry and fisheries are given a longer period to return the VAT than other persons and companies.
- Users of pesticides and fertilizers are subject to a tax.

## **Poland**

### ***Income Taxation***

211. Income tax is only applicable to specific agricultural products. On the list of specific agricultural products are: greenhouse production, poultry production, mushroom production, bee keeping, large-scale pig farming, fur animals, silkworm production, *etc.* Revenue from other types of agricultural production is not liable for income tax. The proportion of farmers producing these specific agricultural products is between 2% and 5%. The precise number is hard to estimate. Income taxes levied on these specific forms of agricultural production may be assessed in two ways: 1) based on average production norms, and 2) based on cost accounts. If tax payments are based on industry norms the calculation is based on a unit charge multiplied by the area or numbers of units of production. In this case the farmer is not obliged to keep financial records.

212. If the farmer keeps accounts then the calculation of taxable income is based on normal cost accountancy, profit and loss calculations. Tax accounts are prepared on a monthly basis according to farm accounts and payments are also submitted monthly to the tax office with a reconciliation completed at the end of the tax year in April.

213. Individual farmers who operate through a limited liability company are subject to different tax regulations, in particular, they have certain advantages in the recovery of value added taxes.

### ***Property taxation***

214. Farmers who have designated land in agricultural or forestry production, agricultural buildings and agricultural dwellings, pay an agricultural property tax. This tax is calculated solely on unit area. The amount of tax due is set annually and is payable to the local authority treasury in which the land is located. The tax is paid four times per year and is calculated on the value of a set number of hundred weights of rye per hectare. The value of this rye is twice yearly set by the National Statistics Office. There is a reform planned, however, to move away from area taxation to a tax based on farm income per unit area.

215. Farmers may be exempted or released from taxes in a number of ways. For example, a farmer may be released from this tax on land if he has increased the size of the agricultural holding to 100 ha. This also applies if the land is bought or leased from the Agricultural Land Agency. In the case of sale of the enlarged farm, the exemption ends on the last day of the month of sale.

### ***Taxes on Transfer***

216. The transfer of property (land and buildings) title, whether by gift or through inheritance, is free of tax. Buildings which are also used for agricultural production and are located on holdings less than one hectare are also exempted in the case of inheritance by a close family member. The transfer of the farm dwelling is however liable to normal property inheritance taxation unless the person who inherits is not the owner of another residential property and declares that he or she will use this dwelling for a minimum period of five years.

217. If the right to the freehold of an agricultural holding (including land, buildings and dwelling) is transferred within the provisions of the social insurance programme for farmers, then the transfer is exempted from property transfer taxes. This procedure is common when the farmer retires and hands control of the agricultural holding to a child or close relative.

***Social Insurance Payments for Farmers***

218. The Act of 20th December 1990 concerning social insurance payments for farmers (OJ. 1998, No. 7 Item 25 with later amendments) created a social security fund for farmers (known as KRUS) which provides retirement payments. The contributions made by farmers provide a small proportion of the total payments they receive, the majority (more than 90%) of which comes directly from the state budget. All residents of Poland with land ownership of greater than 1 ha of agricultural or forestry land may register for KRUS rather than the normal Social Security System (ZUS). Contributions into the farmers scheme are lower than under the ZUS scheme, although farmers receive similar benefits with regards to health care, education, and social welfare. Some benefits are, however, lower in the KRUS Scheme (pensions). As of 31 December 2004 a total of 1 540 158 persons were registered under the Farmer Scheme and making payments. Beneficiaries of the KRUS scheme, including those retired or receiving disability allowance, number 1 708 645 persons and the net transfer has an estimated value in 2004 of PLN 14 387 m (€3 160 m).

***Other taxes and fees -Value -Added taxes***

219. Special provisions have been made for the farming community with regard to VAT. Very few farmers have registered their farming activities for VAT, although everyone resident in Poland is issued with a personal VAT identification number. To be VAT registered for business involves registering the farm as a business in a variety of formats including partnerships or limited liability companies. In the absence of VAT, registration provision has been made for agricultural suppliers to issue VAT sales receipts on behalf of the farmer, and an amount equal to 5% of the tax may be recovered in this way. In some cases, this is a disadvantage to smaller farmers who are unable to recover the full costs of VAT and this is especially the case if supplier credit has been provided by the agricultural input supplier. Farms registered for VAT are able to account in full, as any other business, their VAT and recover or offset payments on a yearly, biannual or monthly basis. These measures were introduced when agricultural inputs and products became liable for VAT.

## Slovak Republic

### Introduction

220. The current taxation system was introduced in 1993. In that year, the funding of social security and health care systems were separated from the state budget and value added tax was introduced. Numerous amendments have been implemented since then, mostly reflecting the changing needs of the national economy and its individual sectors. In respect of agriculture tax allowances, discount rates, tax exemptions or tax redemptions (refunds) were used during particular periods of time. In detail, the following forms of tax relief have been granted to farming entities since 1993: Tax reforms in 2003 have in general resulted in a shift from direct to indirect taxes. VAT for food increased from 14 to 19% (the general rate was reduced from 20 to 19%), and excise taxes on fuel, beer and tobacco also became higher. In the case of excise tax on beer, a distinction has been made between small and large breweries in the rate of tax paid.

Direct taxes paid by Slovakian farms from 1993 to 2003 in SKK.ha<sup>-1</sup>

Item	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Income tax (1)	10	22	20	46	62	34	34	62	113	103	129
Land tax (2)	511	360	365	353	354	302	332	326	328	336	277
Tax on buildings and constructions (3)	79	76	73	71	65	57	64	63	77	70	57
Real property tax total (2+3)	590	436	438	423	419	358	396	389	405	406	415
Road tax (4)	123	118	118	103	123	70	84	73	74	79	77
Direct taxes total (1+2+3+4)	723	577	576	572	604	463	514	524	591	588	609

Source: MoA SR Farm Survey

### Income taxation

221. Up to end of 2003, farmers (whose sales from farming activities exceeded 50% of their total sales) were allowed to benefit from income tax rates discounted by half (*i.e.* when the general income tax rate accounted for 40%, they had to pay only 20%, later on when the general rate was reduced to 29%, farmers had to pay 15% of their tax base). This provision has been removed by the tax reform of 2003.

222. Up to the end of 1995 individual farmers who were new entrants (who established their business between 1/1/1993 and 31/12/1994) were granted income tax vacations for a five year period. From 2000, farmers were allowed (like all small businesses) to opt for a 2 % flat tax rate without the obligation to declare expenses.

223. Up to 2000, farmers who took over and privatized state farms were allowed to deduct from their tax base a part of their expense on acquiring (buying) state property, on the assumption that they reinvested the gain from this operation.

**Property taxation***Annual taxes*

224. Since 1994, the property tax paid on agricultural land has used reduced rates of 0.75% on arable land, hop gardens, vineyards and orchards and 0.25% on permanent grass lands, forest lands, fishponds and other water plots instead of 1 % of the administered land price.

225. Since 1992 individual farmers who were new entrants have been free of the land property tax on land for a five year period. Land parcels in national parks and conservation areas and water source protection zones have also been exempt from the land property tax.

*Taxation on transfer*

226. No information has been provided.

**Social Security system**

227. The uniform nation-wide public system of social, health, sickness, disability and unemployment insurance applies equally for farmers and other self-employed people and employees. Contributions to the national social insurance fund flow from two resources (employer and employee). The income base from which payments are derived is limited by ceilings, which are different for particular types of insurance (social, health, sickness). Currently, these ceilings correspond with 40 533 SKK per month for old age insurance, 32 000 SKK for health insurance, 20 267 SKK for sickness insurance, 20 267 SKK for disability insurance, 20 267 SKK for unemployment insurance and 20 267 SKK for the guarantee fund. The floor income base may not be less than the value of the minimum wage. The base for accident insurance is not limited. The aggregate of contributions amounts to 47.9% of the income base of payments. The employee pays 13.4% and an employer pays 34.5%. From the beginning of the reform period, insurance conditions and the level of insurance tariffs have been gradually changing; at present, they reach the following level as noted in the table below.

**Rates of insurance tariffs in public insurance (in % of income base)**

<b>Contributions for:</b>	<b>Employee</b>	<b>Employer</b>
Health insurance	4.0	10.0
Old age insurance	4.0	16.0
Disability insurance	3.0	3.0
Sickness insurance	1.4	1.4
Unemployment insurance	1.0	1.0
Accident insurance	-	0.8
Reserve fund	-	2.75
Guarantee fund	-	0.25
<b>Contributions in total</b>	<b>13.4</b>	<b>34.48</b>

Source: Social Insurance Company

228. The total amount of payments from agriculture into public insurance funds (about 3.2 billion SKK annually) has not changed too much since 1993. The decline in farm employment has been offset by the rise of nominal incomes.

***Other taxes and fees***

229. Engine driven vehicles used exclusively for agricultural purposes have been exempted from the *general road tax*.

230. From 1996 farmers have been eligible for an allowance on excise tax on fuel. At the beginning the system was based a tax refunds paid upon individual claims of farmers. Since 2002 the allowance has been incorporated into the wholesale and retail price of fuel (with colouring to indicate its specific purpose). The scale of tax discount in 2002 was 68.8% (11 200 SKK per 1 000 litres in comparison with the full rate of 3 500 SKK per 1 000 litres) in 2002. Currently it is 56.1% (15 500 SKK per 1 000 litres compared with a full rate of 6 800 SKK per 1 000 litres).

231. VAT applies to food (now at the general rate of 19% — see above) but no special treatment of agriculture is reported.

***Estimates of support to agriculture***

232. The OECD PSE database contains income tax concessions as of 1993 that were granted to individual farms and allocated to all commodities according to the share in the total value of production. Road tax concessions were allocated as of 1997. Fuel tax concessions are included since 1996 and are allocated to all commodities. No other information is available.

## Spain

233. Andersen, in NILF (2004), indicates that the system of income taxation is similar to that of France; that is, taxation is mostly on the basis of estimated or national incomes rather than on the actual incomes found by accounting.

### *Taxes on income*

234. Taxable income is classified into five categories according to the source or origin — employment income, investment income, business income, capital gains and imputed income. Business income includes profits obtained from agricultural activities.

235. Three methods are available for the calculation of income:

- Direct income calculation (book-keeping).
- Simplified direct income calculation (simplified book-keeping).
- Fixed index numbers for the calculation of the profit (estimated standards).

236. In general, the first method is used for the calculation of income. However, Spanish income tax law offers small entrepreneurs, including farmers, the opportunity to calculate income in an easier way. Consequently, the second and third methods are only allowed for the smaller farms, depending on the amount of turnover.

### *Taxes on property*

#### *Annual property taxes*

237. A *real estate tax* is levied on an annual basis by the municipalities on the possession of immovable property. It can be deducted from the income. The taxable base is the cadastral value. This value is adjusted every eight years with reference to the market value of the land and buildings. The general tax rates are 0.4% for urban land but at the lower rate of 0.3% for agricultural land. For rural land, the maximum rate depends on the number of inhabitants of the municipality.

238. *Net wealth tax* is levied on behalf of the autonomous regions. If a region fails to set its own deductible amount, a standard deduction of about 108 000 Euro applies. The rates vary between 0.2% to 2.5% (over €10.7 million). No particular agricultural concessions appear to apply.

#### *Taxes on transfers*

239. There do not appear to be any explicit concessions to taxes on the transfer of agricultural assets.

240. *Conveyance tax*: A duty is levied on capital transfers, corporate transactions and documented legal acts. The rate on the transfers of immovable assets is 6% and for movables the rate is 4%. There does not appear to be any concession to agriculture.

241. *Inheritance and gift tax*: Inheritance and gift tax is levied on property passing to individuals by way of gift or on death. Inheritance tax is payable on “*mortis-causa*” transfers of property on the net value of the estate. The law allows a reduction in the taxable base depending on the heir's degree of relationship to the deceased. Transferred assets are valued at their fair market value. The tax rates may vary from region to region. Where the recipient is the spouse or child of the deceased an additional deduction applies in case of a family business and the permanent residence of the deceased. This deduction is 95% of the value of

such property. The deduction of the deceased residence is limited to € 123 000. There does not appear to be further explicitly agricultural concessions.

***Other taxes and levies***

*Value added tax (VAT)*

242. A special system exists for farmers. Normal VAT is levied on most business and professional transactions carried out within Spain and on all goods imported into Spain. The standard VAT rate is 16%. A reduced rate of 7% applies to food, animals, some goods used in agricultural activities, water, most ornamental plants, medicines, first transfer of houses and many transport services. A super-reduced rate of 4% applies to various basic necessities. Under the special system for farmers, the agricultural goods they sell are taxable at a rate of 7%. For their supplies they pay the standard rates. Farmers can also choose to use the general VAT-system. It can be profitable to switch to the general VAT-system before investments are made.

*Environmental taxes*

243. In Spain, environmental taxes are levied on energy and water consumption. No taxes are levied on pesticides and fertilisers.

## Sweden

### *Introduction*

244. In 1990/1991, a decision was made to reform the Swedish tax system. The tax rates were lowered at the same time as the bases for taxation were broadened. Taxation of capital income was separated from taxation of labour income and a uniform rate of taxation was applied to capital income. The principle aim of the reform was to reduce distortions and welfare losses stemming from high tax rates and narrow tax bases, and at the same time lighten the redistributive role of the tax system by increasing child allowances and housing benefits.

245. Farming plays a small role in the Swedish economy, employing 1.5% of the Swedish work force and contributing 0.6% to GDP. Swedish farmers face, in principle, the same rules for taxation and social security as the rest of society. There are a few exemptions from the general tax legislation and no exemptions from the legislation regarding social security.

### *Income taxation*

246. The individual tax on income is comprised of tax on labour, which is partly a local and partly a state tax, and on capital, which is a state tax. Local income tax includes taxes levied by municipalities and county councils. The local tax is proportional but varies between different municipalities.

247. Income tax is levied on earned income from employment and on income from unincorporated business. Individual capital income is subject to income tax on interest, dividends and capital gains as well as a number of other taxes on capital income and assets, *e.g.* the net wealth tax.

248. Taxable business income is computed according to “generally accepted accounting standards” and the accounting records therefore form the basis for taxation. The principles of accrual accounting apply to all businesses regardless of size. The tax rules for depreciation of buildings, machinery and inventories are also the same for all business, including farming. Up to 20% of net profits can be allocated to a tax allocation reserve. After six years the reserve must be dissolved and added to income. An objective of recent years has been to achieve tax neutrality between various legal forms of business enterprise. The basic rules for state income tax on legal entities would therefore be the same for all businesses, regardless of size and legal status. Income from farming and forest activities is taxed as business income.

249. Those who are self-employed and who own a farm unit can, under certain circumstances, make a tax deduction from the taxable business income for part of the value of the forest.

### *Property taxation*

#### *Annual taxes*

250. The tax value of property is established via periodical real estate assessments. Property tax is due on all residential houses and on property intended for residential houses, industrial buildings and units for production of electricity. The tax value of the property is required to correspond to 75% of its market value. Property tax for newly built residential houses is either lower or nil for the first ten years. The amount of the tax is the same whatever the use of the property. Residential houses on farms are subject to property tax, while other farm buildings, farm land and forest land are not.

### *Taxes on transfer*

251. The *inheritance tax* is progressive and close relatives pay less than other beneficiaries. The tax base is the value of the part of the inheritance. A tax on gifts is paid if the value of the gift exceeds SEK 10 000 (€ 1 090). There is no special legislation for farmers and their families.

252. A stamp duty is levied at the time of acquisition of real property and the registration of mortgages. No special treatment of agricultural land has been indicated.

### *Social security system*

253. The Swedish social insurance system is mainly financed through general taxes, in particular payroll taxes. A gradual change is taking place whereby contributions from employees are increasing and those paid by employers are decreasing. The social security system in Sweden rests on four pillars: *i)* compensation for short-term loss of income in case of unemployment, sickness and work injuries; *ii)* compensation for long-term loss of income due to old-age retirement and work incapacity; *iii)* family support such as compensation for loss of income to care for children and to offset high housing costs; and *iv)* services in kind to reduce the costs to households for health, elderly and child care.

254. Farmers and their families are subject to the same rules concerning payment to the social security system as other employers and employees, and are thereby also included in the social insurance system on the same conditions.

### *Other taxes and fees*

- The standard VAT rate is 25% but a reduced rate of 12% applies, for example, to food.
- For environmental and economic reasons, there is a tax on energy. Farmers have the possibility to be reimbursed up to 100% of the energy tax on fuel. For electricity, the reimbursement may be close to 100% and up to 79% of the carbon dioxide duty on fuel used for heating and stationary engines. No reimbursement is possible for the use of fuel for vehicles. Farmers involved in commercial greenhouse farming have the possibility to buy fuel at a reduced tax level.
- Users of pesticides and fertilizers are subject to a tax based on the composition of the products. Most of the revenues from these taxes for 2001-2003 are being reimbursed in the form of measures aimed at reducing nutrient leakage as well to reduce environmental risks in the area of plant protection. Some 25 % of the revenue will be reimbursed collectively to the agricultural sector in the form of research, information, training, extension, and development measures. The objectives of these measures are to promote sustainable production methods in the agricultural and horticultural industries.

## Switzerland

### *Introduction*

255. The confederation structure of Switzerland contains three administrative levels, *Bund*, *Kanton* and *Gemeinde*. Each level has the right to collect certain taxes and fees. In particular, the nature of the cantons means there can be differing rules on how to treat farmers and farm families between cantons. In general, agriculture in Switzerland appears to be treated only slightly differently from other sectors in matters of taxation.

### *Income taxation*

256. Income tax is collected by the regions (cantons), but split between the regions and the federal state. There is no special treatment for agricultural income, which is calculated according to book keeping records. An exception concerns capital gains on the sale of agricultural land (this is considered in property taxation below).

### *Property taxation*

#### *Annual taxes*

257. Annual property tax is levied by the regions. The valuation of agricultural land for property tax purposes is based not on market price but on a method of economic valuation (*Ertragswert*). This method gives values that are significantly lower than those values that would be obtained through sale in real estate markets.

#### *Taxation on transfers*

258. Usually, taxable income (capital gain) from sale of land is calculated based on the difference between the sales price and the book keeping value (which is presumably the purchase price). Since depreciation of land is not usually an issue, taxable income corresponds to the increase in the value of the land since its purchase. Agricultural land is treated differently. The taxable gain from the sale of agricultural land is calculated as the difference between the price at which the land was purchased and its book keeping value (which often will be the same). The taxable gain is therefore often zero.

259. Information on other taxes on transfers is not available.

### *Social security contributions*

260. Equality of treatment holds true in principal for social security contributions and welfare measures. Farmers, like other persons, are insured through the Federal Office for Social Security (BLW, 2000).

261. Though not a tax concession, it might be noted that there are special family allowances for small farmers (so-called *Familienzulage*) below a certain income level. If the income is below CHF 32 000 per farm family, then farm families are given a monthly payment for each child. The amount is regionally differentiated (valleys and mountain areas). There is also a higher amount from the third child onwards. The yearly payments vary between CHF 1 980 and CHF 2 280 per child per year. The total amount of this support measure was CHF 102 million in 1997. Due to an increase of the payments in January 2002, the total amount of the *Familienzulage* will probably be around CHF 120 million in 2002. The family

allowance for small farmers is mentioned in the Swiss notification to the WTO of domestic support as a “green box”-measure.

***Other taxes and fees***

262. Swiss agriculture is eligible for a partial refund of the mineral oil tax. Other sectors like forestry, fisheries and transport are also eligible for this refund.

## United Kingdom

### *Introduction*

263. Taxation of agriculture comprises almost completely payments to central government. Though local taxes exist, agriculture is largely exempt from them. In terms of taxes on current income, agriculture is treated largely as other forms of business, though there are certain special provisions reserved to agriculture and other activities that are characterised by similar instability over time. A feature of the UK is the number of farm businesses arranged as companies, usually with tax minimisation in mind, though these still represent a minority of farms. The main concessions specific to agriculture occur in capital taxation and affect the value at which real estate is taxed. Forestry is given special treatment. There are no special provisions for social insurance used for agriculture.

### *Income and profits taxation*

264. The profits of unincorporated agricultural businesses are subject to the normal rates of income tax applied to their operators. Rates are progressive. However, there is a provision for averaging over two successive years; for the purpose of averaging, profits are calculated after the deduction of capital allowances (mostly the depreciation of capital assets according to rates determined by the taxation authorities). This is not exclusive to agriculture, being also allowed to artists and writers, though numerically these groups are probably far smaller than the number of farmers. Special rules apply to “hobby” farmers in their ability to offset losses in agriculture against income from elsewhere; normally losses are disallowed after five consecutive years of loss. Profits of farm businesses arranged as companies are chargeable to corporation tax, and companies are not allowed to take advantage of averaging.

265. In effect, current income from forestry (both the cost and revenue sides) is now outside the tax system, a decision taken to end what had become an abuse by high-earning individuals to take advantage of the rules then in place to reduce their tax bills.

### *Property taxation*

#### *Annual taxes*

266. Agricultural land and associated buildings used for production are exempt from the annual local property tax levied on other business assets (business rates). There is no wealth tax in the UK, but capital taxes are imposed on transfer by death, gift or sale.

#### *Taxes on transfers*

267. Agricultural land (and associated buildings) receives special treatment when inheritance tax is calculated (a capital tax levied on transfers on death) the taxable value of land being reduced by 100% (that is, not taxed) if owner-occupied, or by 50% if tenanted under the normal long-term letting arrangements. From 1995 100% relief also applies to the value of land let on “farm business tenancies”, a recent form of fixed term letting. Historically, this type of relief was confined to agriculture and resulted in situations where funds were channelled into agricultural property to secure the relief. Today, similar provisions apply to other forms of business assets (including shares in non-quoted companies). However, it does not apply to other forms of wealth so that there is still some incentive to make land purchases for tax planning purposes. In that farmers are relatively wealthy as a group and have much of their personal wealth in the form of land, a case could be made that there is *de facto* some favourable treatment.

268. Capital gains on assets held by individuals are subject to capital gains tax, a progressive tax that has numerous forms of relief (such as for retirement), but agricultural property is very largely treated the

same as other business assets. Capital gains realised by farms arranged as companies are subject to corporation tax.

***Other taxes***

*VAT*

269. The standard rate is 17.5%. However, a zero rate is applied to almost all agricultural output (an exception being horses). Though, in theory, a simplified system can operate, in practice, agricultural businesses are subject to the regular value added tax regime (but with output zero-rated, which implies that they can claim back tax paid on inputs).

*Taxes on inputs*

270. There are special low rates of excise duty (a form of tax) on fuel for agricultural use and concessions on farm vehicle annual taxes. Again, there may be other special but small groups that share the concessions (such as fishermen).

## United States

### *Introduction*

271. The US tax system is characterized by a pronounced federalism. In addition to taxes at the federal and state levels, at the local level counties, municipalities and townships, school districts as well as special purpose authorities are allowed to raise taxes. The federation levies federal income tax on individuals, which is a uniform tax on gross income. Federal income tax is the main form of direct taxation on farm households, accounting for almost half the total, followed by social security and self-employment taxes. Some states do not have their own income tax and others raise it in a quite different form. Municipalities raise their own income and corporation taxes. All the states as well as most municipalities raise land and real estate property taxes. The Internal Revenue Code (IRC) of 22 October 1986 (including later changes) is decisive for all federal taxes. The legal validity of the remaining taxes are the tax laws and the constitution of the respective federal states or municipalities. The differing approaches results in considerable variation in tax arrangements between states and between rural and urban areas. This complexity means that it is both conceptually difficult to establish what might be a favourable treatment of agriculture at the national level and to measure it.

272. An indication of the relative amounts of tax revenues raised by the main forms of direct taxation can be taken from the following table, although the tax laws, especially at the federal level have been modified several times since the year to which they relate (1996).

**Federal, state and local direct tax for farm households  
in the United States 1996 Tax (in billion USD)**

Federal income taxes	19.2
Social Security and self-employment taxes <sup>1</sup>	10.2
State and local property taxes	5.2
State and local income tax	4.7
Federal estate taxes	0.5
Total direct taxes	39.8

1. The social security tax includes USD 1.8 billion in self-employment taxes on farm income and USD 8.4 billion for both the employer's and employee's share of the payroll tax on wages.

Source: ERS (2001).

273. In the United States, the most important tax advantages for agriculture under federal income tax are the opportunity to use cash accounting (in contrast to accrual accounting) and deductibility of certain capital expenditures. However, the reduced tax on farm real estate for state and local property tax purposes may be the most significant tax expenditure overall.

### *Income taxation*

274. Under the current income tax structure, depending on how it is organized, a farm business can be taxed under the federal individual income tax or corporate income tax. Most farmers in the United States are taxed under the individual income tax. In most instances, the tax treatment is the same at the state level. A business taxed at the federal level as a corporation would also generally be taxed as a corporation at the state level. The following forms of businesses are distinguished:

- *C Corporation* - An organization taxed as a separate entity under the corporate income tax. Some of the larger enterprises may have stocks that are traded on stock exchanges. The

dividends are subject to both the corporation and the individual income tax (shareholder recipients).

- *Cooperative* - A farmers' cooperative is an organization that is owned, financed, and controlled by the individual farmers or groups of farmers who use its services. Earnings are allocated and distributed to members based on patronage and are generally only taxed at the individual level. Some cooperatives that satisfy specific requirements may be tax-exempt.
- *S Corporation* - A small business corporation in which the shareholders may elect to have the income passed through to the shareholders and taxed only at the individual level. An S corporation is limited in both the number and types of shareholders.
- *Partnerships* - Unincorporated business or joint venture in which the income is passed through and taxed at the individual shareholder level. Generally, there is no tax at the partnership level.
- *Limited Liability Company* - A limited liability company is a separate legal entity that has some of the important characteristics of a corporation but can be taxed on a pass-through basis to the owners of the company under the individual income tax.
- *Sole Proprietorship* - An individual farm operator that is taxed under the individual income tax unless the proprietor incorporates or forms a limited liability company and elects to be taxed as a corporation.

275. For federal taxes on income, farmers (except C corporations) can opt for corporation tax or income tax; they are bound by their choice, however, for five years. Income from farm businesses is taxed as from other businesses, though there are differences in the detail.

- National subsidies for soil, groundwater or environmental protection, care for wild animals or forests is sometimes tax-free for the farmer. Consumption of farm products by the farm family is tax-free; related costs are not deductible.
- Sole farmers and partnerships may opt for assessment on a three-year average income basis; this is only applicable to farmers and on farm income. Farms arranged as corporations and other self-employed persons are excluded from this facility. The option to utilise income averaging is an annual decision.

276. There is some choice as to the system of accounting (accrual, cash, crop method, etc.). The main advantage of using cash accounting relates to the mismatch of incomes and expenses in different tax years since it is always beneficial to receive a benefit sooner rather than later. The use of cash accounting by corporations is limited to those with gross receipts below USD 1mn. However, family-farm corporations can use the cash method if their taxable gross incomes are less than USD 25mn. There is also some choice in the basis of calculating depreciation, but this does not appear to constitute special treatment for farm businesses.

### ***Property taxation***

#### *Annual taxes*

277. Property taxes (annual) are almost entirely state or municipal, and are thus subject to wide variation. Examples are cited in NILF, 2002 in which the value of agricultural assets is based on the expected yield from them rather than the (higher) market value.

*Taxation on transfer*

278. *Federal Estate and Gift Tax* applies a unified tax rate structure and a cumulated lifetime credit to gifts and transfers of money and other property at death. A progressive rate is applied above a threshold level. There are three additional rules that reduce gift and estate tax in small family business; special use valuation of farmland (see below), deduction for family-owned businesses and instalment payment of estate taxes: Although these three provisions apply to both farms and other small businesses, in their application the primary beneficiaries of the special use value provision are farms. The deduction for family-owned businesses is repealed as of 2004. Only special use value and the instalment payment of estate taxes currently apply.

279. Generally, the value of a property for estate tax purposes is the fair market value at the date of death. For real property devoted to farming or other closely held business, special rules apply. The value of the farm is set to the farm's use value as a farm. To qualify for this use value, the property must:

- be transferred to a qualified heir;
- must have been used as a farm for five years during the last eight years;
- the decedent or a member of the decedent's family must have participated in the farm business;
- the value of the qualified real property must equal at least 25% of the estate; and
- the combined value of real and other business property must be at least 50% of the gross estate.

280. For most farms, the special use value is 40-70% lower than the fair market value.

*Social security contributions*

281. The federal tax system also includes taxes for social security, both for employees and self-employed. The rules for social security taxes are the same for farmers and other self-employed. Social security taxes include two components:

- pension (old age, survivor and disability) (OASIS), and
- medicare hospital insurance (HI).

*Other taxes and fees*

282. *Sales tax* is a state and local consumption tax and thus varies widely. In the example cited by the NILF (2002) report, several goods and services used in agricultural production are not subject to sales tax. A *Use Tax* is applied to business and is similar to the sales tax and complements it.

283. *Petroleum tax* is a state tax, and rates vary. The NILF (2002) case study chooses a state where petroleum used in agricultural or industrial production is exempted from both petroleum tax and sales or use tax. The Federal government also imposes an excise or sales tax on petroleum (gasoline, diesel fuel, etc.). Fuel used on a farm for farming purposes is fully or partially exempt from this tax.

*Estimates of the value of tax expenditures*

284. Estimates are supplied by the United States to the OECD for inclusion in its PSE/CSE database. The figures for single years from 1997 to 2002 are as follows.

**United States: Estimates of Tax Expenditures supplied to the OECD PSE/CSE database  
(USD million)**

<b>Form of concession</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Taxation concession (income)	1 026	1 252	1 585	1 877	2 364	2 489
Fuel subsidy	2 385	2 385	2 385	2 385	2 385	2 385
Total	3 411	3 637	3 970	4 262	4 749	4 874
Producer Support Estimate (PSE)	30 539	48 272	55 932	49 673	51 683	39 559
<i>Total tax exemptions % of PSE</i>	<i>11.17</i>	<i>7.53</i>	<i>7.10</i>	<i>8.58</i>	<i>9.19</i>	<i>12.32</i>

285. It should be noted that the availability of cash accounting has been expanded to other small businesses in recent years, changing the nature of this as an agricultural concession, so that the estimate included in this table might need revision.

286. An alternative, more comprehensive and more recent set of estimates of federal tax expenditures for agriculture under the federal income tax can be found in a report by the Joint Committee on Taxation (Estimates of Tax Expenditures for Fiscal Years 2004-2008, JCS-8-03, 22 December 2003). The report acknowledges that concessions exist under other forms of tax but confines itself to those within income tax. It lists eight tax expenditures and provides estimates for the annual amount of the tax expenditure for fiscal years 2004 to 2008. The JCT figures are used for scoring Federal legislation and, as such, are regarded as carrying greater weight than the expenditure supplied to the OECD PSE/CSE database, reported above. JCT estimates of the total expenditure (in billion USD) for the five-year period 2004-08 are as listed in the following table.

**United States: Estimates of tax expenditure to agriculture  
(period 2004-08)**

<b>Tax expenditure</b>	<b>Estimate for 2004-8 (total) USD billion</b>
1 Income averaging for farmers	0.1
2 The exclusion of certain cost share payments	0.1
3 The expensing of fertilizer and certain soil conditioning costs	0.3
4 The expensing of the cost of raising breeding and dairy livestock	0.2
5 The exclusion of cancellation of indebtedness income	0.4
6 Cash accounting for farmers	1.9
7 Five year carryback of net operating losses attributable to farming	0.2
8 The expensing of soil and water conservation expenses.	0.2

*Source: Joint Committee on Taxation (2003) Estimates of Federal Expenditures for the Fiscal Years 2004-2008. Prepared for the Committee on Ways and Means and the Committee on Finance. US Government Printing Office, Washington. 90-756, JCS-8-0*

287. There are no recent estimates of the tax expenditures under the Federal estate or excise tax or any of the State and local taxes.

288. For the past nine years, the President's base contained a section that reviews and tabulates the estate and gift tax provisions that the Treasury considers to be tax expenditure (JCT 2003).

*Annex 2.***Value Added Tax (VAT) and Agriculture**

1. VAT, in its generalised form, comprises a system in which a supplier of a good or service is required to add a given percentage (VAT) to the price charged for his output. From this sum the VAT that was contained in the costs of inputs may be deducted. The balance of VAT has to be paid to the taxation authority. The treatment of agriculture within VAT rules is sometimes different from the regimes applied to other industries and situations exist in which special arrangements may provide financial benefit to agriculture, either directly or indirectly. These imply that notice must be taken of VAT in the present context, though the identification of special treatments and detection of benefit is not easy. Though the focus of attention here is VAT, similar issues surround taxes on output or sales and these are included here.

2. The text in the main body of this report (paragraph 62) explains that the only special treatments of agriculture under VAT that are included in the general inventory of tax concessions are those aimed at bestowing benefits on the operators of farm businesses or those that do so on an incidental basis and are acknowledged officially. This Annex provides a more comprehensive coverage. Table A2.1 lists the information that has been assembled from a variety of sources on the arrangements provided for agriculture and the rates imposed. An example of a targeted benefit is the concession given in Norway on the timing of VAT payments due to the taxation authority. An example of an incidental benefit is the over-compensation that, in certain circumstances, is known to accompany the operation of the simplified systems that several countries permit for farmers, together with perhaps other small businesses. Such systems typically relieve operators from the need to maintain and file VAT accounts but mean that they neither charge VAT on their outputs nor reclaim the VAT on the inputs they purchase. The compensation, which may take various forms (such as a lump sum paid to operators by the taxation authority, or the right to charge and retain a percentage of the value of sales to VAT-registered businesses), is to recompense farmers for their inability to reclaim VAT paid on purchased inputs, but it may in reality exceed what this is officially estimated to be, the excess being seen as a form of subsidy. In some countries, a majority of farmers operate under simplified schemes and thus are potential beneficiaries. In contrast, one country (Spain) provides an example in which the simplified system acts in a way to make some farmers worse off than under the normal VAT system, providing an incentive to switch.

3. The characteristics of the simplified VAT system should be distinguished from the exemption from VAT that often applies to businesses with small turnovers, of which many may be agricultural. Exemption from VAT implies that, while VAT has not to be charged on output, neither can VAT paid as part of the costs of inputs be reclaimed. In some circumstances the ability to reclaim input-VAT under the "normal" system will provide an incentive to become VAT-registered, even after the administrative costs associated with keeping VAT accounts have been met; this will be particularly the case where there is zero-rating of output (so that there is no impact on the firm's revenue) but where input-VAT then becomes recoverable. Of course, such incentives are not confined to agriculture.

4. Turning to the standard VAT system as applied to agriculture, questions have been raised over whether the common practice of zero-rating (or applying a lowered rate to) agricultural commodities within national VAT systems can be considered as a form of tax expenditure that provides support to farmers. The broad support that zero or reduced rates on output receive from farmers and their representatives suggests that there is indeed some benefit. In general, the conclusion is that such an arrangement is a tax expenditure when viewed at aggregate level, but that the extent of any benefit to

agricultural producers is difficult to ascertain and to quantify because they are shared with other economic agents and with final consumers.

5. The reasoning is as follows:

- Zero-rating of VAT on farm products (or reduced rating) is a departure from the normal treatment of goods and services. However, the benchmark may be clouded by the fact that this treatment may also be afforded to other outputs, such as children's clothes, new dwelling houses, etc.
- There is little doubt that a reduced take in tax revenue results from the treatment.
- It would be possible to calculate the tax expenditure arising from zero-rating of agricultural commodities using the conventional formula, that is, by applying the benchmark or standard rate to output and observing the difference from the present yield. Of course, this is not a reliable indicator of the amount of revenue actually forgone, as no adjustments are allowed for in purchasing patterns as the result of price changes. There will also be a loss in economic efficiency resulting from market distortion.
- However, a characteristic of tax expenditures is that they are operated with the intention of bestowing a benefit on a particular group or activity. While the zero rating of agricultural commodities clearly bring direct benefits to their purchasers, and ultimately food consumers, the target group for this transfer is not farmers. The alternative budgetary expenditure is an income subsidy to consumers (though in practice the government might contribute to part-purchase by a direct transfer to farmers, in the same way that the cost of dental services may be reduced to consumers in the form of a government payment to dentists).
- Nevertheless, some indirect benefit may accrue to farmers, in that market prices of their outputs may be lower than if standard VAT rates were imposed, resulting in enlarged demand and residual income for farm operators. This case is made more complicated if prices are the result of market interventions on the part of the state (e.g. by buying into public storage).
- It is possible to envisage other circumstances in which direct benefits accrue to farmers, even if only as transitory gains. For example, if a normal system is in place in which farmers add VAT to output, and a zero rate is then introduced, if demand is completely inelastic market price will fall by the extent of the tax cut and all the benefit will go to the purchaser, the farmer receiving the same effective price for his output. On the other hand, if for some reason prices do not alter in the short term, then the benefit will be captured by the farmers as a temporary enhancement of income. In reality, an intermediate scenario is likely. In the longer term, adjustments in factor costs might be expected.

TableA2.1. VAT arrangements and agriculture

Country and tax (VAT unless indicated otherwise)	Special schemes and treatments	Special rates under the normal scheme	Notes
Austria		Special arrangements for agriculture and forestry; rate 10%, or 12% for transaction business to business	Regarded as a hidden subsidy in some official documents
Belgium	Farmers do not have to keep VAT accounts and receive a lump sum as compensation. Normal system applies to company farms		Purchasers of agricultural products pay VAT but are reimbursed by the state.
Canada – Federal Goods and Services Tax and most Provinces		Major inputs purchased exclusively by farmers zero rated. Special sales tax treatment in some Provinces	
Denmark			No special VAT treatment mentioned
Finland		Reduced rate of VAT applied to food (17% in contrast to the general 22%)	
France	Two special separate schemes applied to agriculture, split by sales volume: (i) RFA – farmers pay VAT on inputs, but do not charged on outputs, fixed reimbursement from state related to sales (ii) RSA – in effect a normal VAT system	RSA is in effect a normal VAT system	(i) RFA is not necessarily beneficial to all individuals, but official estimates give a positive net benefit to the sector (€58m in 2000)
Germany	Farmers eligible for the ‘flat rate’ system; some 90% are part of the ‘simplified system’		The subsidy element of the simplified rules are thought to be quite low.
Ireland	Farmers below a certain size threshold may operate on a flat-rate basis. They are entitled to charge and retain 4.3% when selling.	Many agricultural outputs are zero rated	Flat-rate system is thought to result in some over-compensation
Italy	Special schemes for small traders and farmers		
Korea		Some reductions or exemptions	Main purpose is to not discourage agricultural production
Netherlands	The ‘agricultural arrangement’; farmers may not charge VAT or deduct payments. Exemption. Purchasers from these farmers receive a fixed-rate deduction of 5.1%	Most agricultural products are charged at a concessionary rate (6% c.f. the normal 19%)	Full VAT registration is an option

TableA2.1. (continued)

New Zealand (Goods and Services Tax)			Agriculture treated as other industries.
Norway	Persons registered in agriculture, forestry and fisheries given longer to return VAT	Reduced rate applied to food (12% c.f. 24%).	
Slovak Republic		VAT applies to food at the standard rate (19%)	No special treatment of agriculture reported.
Spain	Special system for farmers – output taxed at 7% but they pay the standard rates	Reduced rates (7% c.f. 16%) applied <i>inter alia</i> to food and some inputs used in agriculture	It may be profitable to switch to the general VAT system before making investments
Sweden		Reduced rate applied to food (12% c.f. 25%)	
United Kingdom	A simplified system is offered to all businesses above the threshold for compulsory registration as an alternative to VAT accounting. Farmers may charge and keep a 4% addition.	Zero rate of VAT applied to almost all agricultural output	The 4% retained charge is assumed to compensate for losing the ability to reclaim input VAT on purchases. Limits apply.
United States – Sales Taxes and Use Taxes		Some goods and services used in agricultural production are not subject to sales tax.	

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