Personal Agricultural Income Taxation.  
A Comparative Analysis between Several New Member States

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Abstract. This paper investigates in a comparative way how the agricultural personal income is taxed in four New Member States (NMS): Bulgaria, Hungary, Poland and Romania. The objective of this research is to identify any agricultural tax concessions which can reveal possible competitive advantages between these countries. The legislative tax framework shows that all these countries offer to individual producers important tax concessions. Nevertheless, the tax concessions are not linked to the economical farm size. This measure is seen as a proposal of improving the legislative tax regulations.

Keywords: taxation, agricultural revenues, New Member States

INTRODUCTION

The tax system was and still is an important research issue. At the international level the OECD has an important history of evaluating the taxation system and the tax expenditures in general (OECD, 1996, 2004). In the same time, the World Bank has carried out important studies of the tax expenditures in different developed or developing countries (World Bank, 2003; 2004). In the EU, the European Commission annually presents a complete view of the structure, level and trends of the taxation in the Union (EC, 2010).

Even so, agricultural taxation analysis is not a common topic. In 2005, the OECD has done an important analysis of the tax systems applied in 25 states searching different types of tax concessions. The main results show that tax concessions given especially to the agricultural inputs can increase farm production (OECD, 2005). One of the factors influencing the competitive position of the agriculture is demonstrated to be the tax system (Hennie van der Veen et al., 2007); that is why in neighbouring countries like in the New Member States such incentives are suspected to explain capital migration.

MATERIALS AND METHODS

An income tax represents an annual charge levied on both earned personal income (wages, salaries or commissions) and unearned incomes such as dividends, interests or rents (Seligman, 2005). The tax is used in the national budget, in order to finance the State expenditures such as: capital, investments, salaries, subsidies etc. It is bearded by the physical persons out of their earned revenues. That is why; the individual persons who obtain agricultural revenues in the four New Member states were firstly analysed using statistical data from the Eurostat Database. Then, the personal income taxation system was presented in a comparative way. To fulfil this task the national legislative framework was analysed using both the “Taxes in Europe” Database and other bibliographical references. They allow a comprehensive comparative study which underlines possible competitive advantages between these NMS farmers (organised as physical persons).
RESULTS AND DISCUSSION

The main agricultural characteristics of the analyzed NMS are (Eurostat):
- important land area available for agricultural activities (Tab.1);
- important farm number which contribute to the land fragmentation. As a consequence the average farm size is around 6 Ha in Bulgaria, Hungary or Poland. From this point of view an average Romanian farms has only 3.49 Ha of utilized agricultural area;
- the economic size of the farm is very weak. Approximately 77% of the total farm number has less than 1 European size unit (1ESU =1200 euro) in countries such as Bulgaria, Hungary or Romania. Only Polish farms have a better economical force (more than 40% of farms encompass 1 ESU). From this point of view, in Romania, more than 30% of the utilized agricultural area is cultivated in farms that have less than 1ESU;

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<tr>
<th>Utilised agricultural area (Ha)</th>
<th>Holding number</th>
<th>Average holding size (Ha)</th>
<th>Number of holdings less than 1 ESU</th>
<th>Utilised agricultural area less than 1 ESU (Ha)</th>
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<tr>
<td>Bulgaria 3,050,740</td>
<td>493,130</td>
<td>6.18</td>
<td>375,340</td>
<td>183,690</td>
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<tr>
<td>Hungary 4,228,580</td>
<td>626,320</td>
<td>6.75</td>
<td>485,490</td>
<td>174,380</td>
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<tr>
<td>Poland 15,477,190</td>
<td>2,390,960</td>
<td>6.47</td>
<td>1,262,820</td>
<td>1,621,610</td>
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<tr>
<td>Romania 13,753,050</td>
<td>3,931,350</td>
<td>3.49</td>
<td>3,064,670</td>
<td>4,254,930</td>
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Source: Eurostat

Moreover, the farms’ legal status can reveal the importance of the personal income taxation acquis in the agricultural competition between these countries. In 2007, around 53% of the Hungarian UAA was exploited in farms that had a legal status. The farm’s proportion that did not have a legal status was more important in countries like Romania and Poland. Around 65% of the Romanian UAA was exploited in single holder holding and 90% in Poland respectively.

All this statistical data shows that the personal income taxation can greatly influence the agricultural production in these NMS. Knowing that the farm economical size is weak, the establishment of an important tax burden can not be supported by farmers and moreover can contribute to farm output decrease.
## Comparative legislative frameworks of personal income taxation in selected NMS countries

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<td>Residents on their worldwide income, non-residents on their Polish source income.</td>
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<td>Residents for their worldwide income and non-residents on their Bulgarian income source.</td>
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<td>Residents individuals are obliged to pay personal income tax and non residents on their local income sources.</td>
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<td>Residents are taxed on their worldwide income. Non-residents pay tax only on Romanian source income.</td>
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<td>Tax objects</td>
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<td>Revenues derived from all sources. However, certain types of income were not subject to taxation: special agricultural activities; special forestry activities; etc</td>
<td>1) from labour employment; 2) independent personal activity; 3) non-agricultural business activity; 4) special branches of agricultural production; 5) lease, sublease, tenancy, sub tenancy and other such contracts; 6) money capitals and property rights; 7) transfer against consideration of immovable property; 8) other sources;</td>
<td>1) from labour employment; 2) income from sole proprietor's enterprise; 3) income from other types of economic activity; 4) income from rents or any other vesting of rights or property for consideration; 5) income from transfer of rights or disposal of property; 6) income from other sources as well as income liable to final taxes.</td>
<td>1. income from labour employment; 2. income from sole proprietor's enterprise; 3. income from other types of economic activity; 4. income from rents or any other vesting of rights or property for consideration; 5. income from transfer of rights or disposal of property; 6. income from other sources as well as income liable to final taxes.</td>
<td>(I) aggregate income taxed at progressive rates (income from dependent personal services, from independent personal services and other aggregate income), and (II) incomes taxed separately at flat rates (including entrepreneurial income, income from capital, benefits in kind, miscellaneous incomes like small receipts).</td>
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<td>Income obtained from different sources: independent activities; salaries; investments; leasing of real estate properties; pensions; transferring immovable property from personal patrimony; agricultural activities; gambling and prizes; other sources</td>
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<td>Rates</td>
<td>R.1: 19.00% from 3,091.00 PLN; R.2: 30.00% from 44,490.00 PLN; R.3: 40.00% from 85,528.00 PLN; Revenues with lump sum taxation: interests (19%), dividends (19%), prizes (10%), etc;</td>
<td>10 % flat rate</td>
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<td>Source: Taxes in Europe Database;</td>
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The fiscal system in these NMS has undergone important changes before their accession to the EU. The two most important changes were the introduction of the personal income tax (PIT) and the value added tax (VAT). Even these taxes have general rules and principles that act in the same way across countries; there is not a unique fiscal acquis at the European Union. So, every country has the ability to create a national framework applicable on their administrative territory as long as it is not contrary to common rules or regulations. Moreover, until the fiscal integration of the Union, all the EU member states use their national tax rules as a tool in attracting new investments.

All in all, there is an important diversity in the personal income tax regulations between these countries (see table 2 above), but the main characteristics are:
- the taxpayer is a resident person who obtains incomes on the national territory or abroad. Usually, a person is considered to have the fiscal residency in a country if staying more than 184 days per year in that country. A non resident pays income tax only for those revenues obtained on the national territory. From this point of view, there are no important differences between these countries;
- the tax object is the income obtained by a physical person from different income sources. As a rule all incomes can be taxable and every country sees in these kinds of regulations a tool to be used in order to develop a particular activity type. Among these countries there are Poland and Hungary which use the progressive taxation system for salary incomes or independent personal activities. In the same time they use flat rates for revenues like entrepreneurial income in Hungary or dividends income in Poland. On the other side, Bulgaria and Romania use a flat rate taxation system with 10% level in Bulgaria (the lowest level in the EU);
- as a crisis response Poland and Hungary decreased the personal income tax burden. In Poland, the first 3,091.00 PLN (754 euro) income is not taxed. Comparing 2008 with 2010 there was an important tax decrease from revenues that exceed 85,528.00 PLN (20,867 euro)\(^1\) because the progressive tax decreased from 40% to 32% in 2010. In Hungary for the first 5,000,000 Huf (17550\(^2\) euro) the tax rate is 17% in 2010 and 32%\(^2\) for revenues that exceed this limit;

The agricultural revenues obtained by the physical persons as individual agricultural producers represent an important living source in less developed regions. That is why in the following sections the different types of tax concessions will be identified.

In Bulgaria, the concessions given to individual producers are of two types (State Gazette No. 95/24.11.2006 with the following amendments):
- non-taxable incomes which can be: on the one hand any income acquired during the fiscal year from the sale or exchange of any number of agricultural and forest properties, provided that more than five years have elapsed between the date of acquisition and the date of sale or exchange; and on the other hand any income derived from ground rent, rent charge or from other onerous provision for use of agricultural land;
- revenues that are not treated as taxable incomes: taxability shall not apply to any income accruing from the activity of physical persons registered as tobacco producers and agricultural producers, including activities in a sole trader capacity, for

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\(^1\) 1 EUR= 4.0986 Polish zlots accordingly with Euro foreign exchange reference rates established by the European Central Bank (21 July 2010);

\(^2\) 1 EUR= 284.9 Hungarian forint accordingly with Euro foreign exchange reference rates established by the European Central Bank (21 July 2010);
unprocessed plant and animal products, with the exception of any income accruing from growing ornamental plants;

In Poland, the personal income tax encompasses all incomes of physical persons, excluding revenue from agricultural activities, with the exception of revenue from special branches of agricultural production, forestry economy etc (Parlińska, 2008). The list of special branches of agricultural production that are taxed comprise: greenhouse production, poultry production, mushroom production, bee keeping, large-scale pig farming, fur animals, silkworm production etc. Income taxes coming from these specific forms of agricultural production may be assessed in two ways: based on average production norms or based on cost accounts and the farmer can choose between them.

In Romania, the agricultural revenues obtained by the authorized individual producers, with several exceptions are not taxed. These exceptions are represented by the following incomes (Romania Fiscal Code):
- the production and the selling of flowers, legumes and vegetables obtained in greenhouses or solariums irrigated or not irrigated, especially designed for these destinations;
- the production an the selling of shrubs, decorative plants and mushrooms;
- the exploitation of wine and fruit tree nurseries and others alike;
- the capitalization of agricultural products obtained after harvesting in natural state from property or lease farm land to specialized collection, processing or units for use as such;

The net income obtained from these sources can be calculated in two ways:
- applying unit-area income norms annually established by the departmental fiscal authorities where the farmer has his residence;
- using the real net income obtained by the farmer in a simplified accountancy system. In this case the farmer has the obligation to keep only an inventory book and a cash book in which the he can deduct all the production expenses;

In order to find the due tax, the net revenue is then multiplied by 16% flat rate. When authorizing the activity the farmer can choose between these two options. Annually, he can change it by deposing an official demand to the fiscal authorities. Even so, for revenues obtained after selling the farm vegetable production, the tax is to be computed by withholding 2% of the sold products, starting with January the 1st, 2009, this tax being the final tax.

In Hungary, the small-scale farms (individual entrepreneurs, subsistence farmers) are taxed under Personal Income Taxation or the Simplified Entrepreneurial Tax, whereas companies and co-operatives come under the Hungarian Corporation rules (MOLNÁR and MÁTYÁS, 2004). The income tax depends on the revenue obtained by the farmer (Hennie van der Veen et al., 2007):
- if revenues from agricultural activities are less than €2,384, farmers do not have to include them in the overall taxable revenue;
- to small farmers with annual revenues exceeding €2,384, but below €15,894, with at least 20% costs and no other income during the fiscal year, after deposing a signed simplified declaration statement, paying income taxes would not be mandatory. Although no income tax is due, they still have to pay a health care contribution.
- further fiscal facilities are granted to farmers with revenues between €15,894 and €23,842. The first 40% of the revenues is exempt from taxation. The costs incurred are deducted from the remaining part of the revenues, leading to the taxable income;
CONCLUSIONS

All these findings show that the individual agricultural producers from the New Members States have important tax advantages. Bulgaria offers the most attractive tax concessions to the individual producers, only ornamental plants’ production being taxed. On the other hand Poland and Romania tax only agricultural activities that can generate important agricultural revenues, like productions obtained in heated greenhouses or from ornamental plants. These tax concessions are seen as a way to encourage the individual farm development but they show in the same time important shortcomings too. For instance there is the risk of facilitating this kind of farm organisation to the detriment of farm companies. Hungary applies a progressive taxation system which answers probably better to the need of creating a correct taxation system. This progressive way of taxation takes into consideration the farm’s economical size, which is not the case in all other analysed countries.

To sum up, these findings open up new research possibilities. Most importantly, the fiscal measures which can contribute to individual farm modernisation deserve to be investigated. Even these tax facilities are important; they are not contributing to the real agricultural development. In the short run, they are a only a subsistence source for the farmers, but in the long run, it turn out into important drawbacks when considering the development plan for the New Member States.

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