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**Rafał Rosiński**

*Koszalin University of Technology, Poland*

## THE MEANING OF INDIRECT TAXES IN AGRICULTURAL ACTIVITY

### *ZNACZENIE PODATKÓW POŚREDNICH W DZIAŁALNOŚCI ROLNICZEJ*

**Key words:** indirect taxes, excise duty, VAT, agricultural activity, farm investment decisions, Middle Pomerania

*Słowa kluczowe:* podatki pośrednie, akcyza, podatek VAT, działalność rolnicza, decyzje inwestycyjne gospodarstw rolnych, Pomorze Środkowe

**Abstract.** The purpose of the article was to present the specifics of indirect taxes in agricultural activities in Poland, the analysis of the VAT rates in the European Union and the presentation of survey results relating to indirect taxes in agriculture. Indirect taxes, i.e. VAT and excise tax, cause delamination of the market prices of goods and services. In the agricultural activity what is crucial are VAT rates spread between the base rate and the reduced rate relating to agricultural production. The resulting difference often causes excess input VAT and results in an obtained tax return for the farmer. The farmer (depending on the method of VAT) has the possibility to receive a lump sum refund of VAT. In addition, the farmer has the opportunity to receive lump-sum refunds on the excise tax, if he purchases fuel for agricultural purposes. Specific tax solutions for agriculture, related to indirect taxes, are tax preferences and substantially affect investment decisions farms. The author of the article used statistical data from the European Commission's report *VAT rates applied in the Member States of the European Community, Situation at 1<sup>st</sup> January 2015* and the results of surveys conducted among farms of Middle Pomerania in Poland.

### Introduction

Agricultural activities in Poland have specific rules of tax settlement. These special rules relate primarily to the settlement of indirect taxes, i.e. VAT and excise tax. Indirect taxes cause delamination in the market price of goods and services. This is observed on the market for agricultural products, in which the difference in the spread between the base rate and reduced rate relating to agricultural products is of essential meaning. In addition, the choice of the method of VAT taxation is not without significance, i.e. a general rule or a lump sum refund. In the case of excise duty, it is essential to refund it on fuel purchased and intended for agricultural purposes. The aim of the paper is to present the specifics of indirect taxes of agricultural activity in Poland, an analysis of VAT rates in the European Union and the presentation of survey results relating to indirect taxes in agriculture.

### Material and research methodology

In order to demonstrate the importance and specificity of indirect taxes in agricultural activity, domestic and foreign literature and legislation in the field of agriculture taxation, was analysed. In the article, statistical data from the European Commission's report *VAT rates applied in the Member States of the European Community, Situation at 1<sup>st</sup> January 2015* was used. Partial results of surveys conducted among farms of the Middle Pomerania in Poland were also included.

Empirical research was carried out in May and June 2012. A questionnaire was prepared to carry out research. The study was conducted in agricultural households (companies) of Middle Pomerania, i.e. the municipalities included in the sub-region słupski and sub-region koszaliński. It was decided to research 280 subjects. A return of 250 properly completed questionnaires was achieved, which represents 89% of the total surveyed. The snowball method was used in the studies.

After the end of each interview the interviewer asked the respondent to indicate a familiar person, in which he could also conduct an interview on the same subject. The snowball method was used due to the sensitivity of research topics and distrust of the respondents in relation to the interviewers. The study was conducted in 14 districts in 54 municipalities of Middle Pomerania.

### **The specificity and the VAT settlement in agricultural activities**

In the case of VAT taxation in agricultural activities, the farmers are presented with two ways of settlement. For the farmers, who in the previous fiscal year didn't exceed 20 000 PLN sales or didn't opt for keeping records of VAT on general terms, the law provides for a lump sum method of VAT refund. Accordingly, the so-called flat-rate farmers are not required to keep records of VAT. Tax refunds shall be the price of products sold, which is paid by the buyer to the farmer's flat-rate products and increased by VAT – 7% (to 30 April 2008 – 5%, to 31 December 2010 – 6%). It is the responsibility of the flat-rate farmer to have a tax identification number, bank account and received sales invoices for a period of five years from the end of the tax year in which they were issued.

The invoice documenting the purchase of agricultural products from the farmer is marked as "Invoice RR" and issued by the purchaser. This system differs from the general principles of operation of the tax on goods and services, because the tax is not part of the price calculation and is not charged by the seller, but it is a component of the payment due to the seller and is charged by the buyer [Litwińczuk 2008].

The second way of VAT settlement is the ability to account for so-called general terms. This method can be used by farmers who document the sale of agricultural products in the previous fiscal year with a value exceeding PLN 20 000, make an application for registration with the tax office for VAT purposes, lead the daily records of sales and purchases of goods and services and draw up a declaration of VAT. The records should be kept for at least three following months immediately preceding the period of resignation from the lump sum method.

According to the Art 128 *Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax* [OJ L 347, 11.12.2006] agricultural products (e.g. grains, vegetables, fruits, livestock, milk, etc.) from 1 January 2011 may be taxed at a reduction of not lower than 5%. Consequently, since 2011 unprocessed agricultural products in Poland offered for sale to the farmer, i.e. corn, canola, potatoes, vegetables, fruits or products of animal origin are subject to 5% VAT rate. A tax rate of 23% is levied from the products affecting the expenditure in agricultural activity, i.e. fuel, agricultural machinery, electricity, gas, heating oil, and the rate of 8% of the products used in agricultural production, i.e. fertilizers, plant protection products or feed.

### **Analysis of the VAT rates in the European Union**

VAT in the European Union is subject to the greatest harmonization. It is the tax, which significantly affects the price of a product or service because it is included in the price of the product or service. Thus, to a large extent, it affects consumer demand and investment as well as the size of the offering by the company products and services. The determined VAT rate is frequently part of the attractiveness of the country in terms of investment and so is one of the factors of competitiveness of the country. However, the reduction in the VAT rates is an unpopular decision made by Countries due to its high revenue to the state budget. Individual Countries use tax reduced rates for certain products and services. This is used on the grounds of socio-economic policies, which are intended to prevent the growth of prices for specific products and services [Rosiński 2010]. Therefore, in addition to the basic rate, reduced rates are distinguished for certain products or services. In many countries of the European Union, the reduced rates are used in relation to agricultural products originating from agricultural activity (Tab. 1).

On analysing the fiscal burden from the point of view of VAT tax rates in agricultural activity, it can be seen that in the 13 countries of the European Union in 2015, the size of the rates associated with agricultural production is the same as the base rate, and therefore not subject to reduction.

Table 1. VAT rates applied in the member states European Union in 2015  
*Tabela 1. Stawki VAT w krajach członkowskich Unii Europejskiej w 2015 r.*

Country/Kraj	VAT rates/Stawki VAT [%]		Country/Kraj	VAT rates/Stawki VAT [%]	
	agriculture inputse/na produkty rolne	standard/ podstawowa		agriculture inputse/na produkty rolne	standard/ podstawowa
Luxembourg/LU	3	17	Lithuania/LT	21	21
Malta/MT	18	18	Netherlands/NL	6	21
Germany/DE	7	19	Italy/IT	4	22
Cyprus/CY	5	19	Slovenia/SI	9,5	22
Bulgaria/BG	20	20	Greece/GR	13	23
Estonia/EE	20	20	Ireland/IE	13,5	23
France/FR	10	20	Poland/PL	5	23
Austria/AT	10	20	Portugal/PT	6	23
Slovakia/SK	20	20	Romania/RO	24	24
United Kingdom/UK	20	20	Finland/FI	24	24
Belgium/BE	6	21	Denmark/DK	25	25
Czech Republik/CZ	15	21	Croatia/HR	25	25
Spain/ES	10	21	Sweden/SE	25	25
Latvia/LV	21	21	Hungary/HU	27	27

Source: own study based on [VAT rates... 2015]

*Źródło: opracowanie własne na podstawie [VAT rates... 2015]*

The countries with the highest rates of VAT in the field of agricultural production are: Hungary with a rate of 27%, and Denmark, Sweden and Croatia with a rate of 25%. However, it should be noted that the majority (15 countries of the European Union) apply reduced rates in relation to agricultural production, including 9 countries which have a rate lower than 10%. The countries with the lowest VAT rates in 2015 are: Luxembourg – 3%, Italy – 4%, Cyprus and Poland – 5%.

An analysis carried out in VAT rates should also be given to the amount of the difference arising between the basic rate and the reduced rate. The largest difference, in this regard, among the countries of the European Union, is applied in Poland and Italy. In both Countries, the difference between the basic rate and the rate applicable to agricultural products originating from agricultural activities is 18 percentage points. a big difference between the analysed rates can also be observed in Portugal – 17 percentage points. It should be emphasized that a large spread between the reduced rate and the basic rate is evidence of the tax range preferences applicable to particular goods or services. In many cases, it is more beneficial for farmers to become liable to VAT than to the use of flat-rate VAT returns. The developing farm, which makes significant investments in their own business, will receive more VAT returns on their purchases than in the lump-sum method refunds.

### The role of indirect taxes in agriculture

Another tax indirectly related to agricultural activity is excise tax. In this case, excise duty should be regarded as a privilege rather than a fiscal burden in agriculture. In accordance with the laws, if any farmer wants to recover some of the money spent on diesel used for agricultural production, he should collect VAT invoices and submit an application to the commune head, the mayor or the city president. He should also provide proof of purchase of oil, driving within the limit of return. The amount of the tax refund that the farmer receives depends on the amount of diesel fuel purchased, but it cannot be more than 86 litres per 1 hectare of agricultural land. In 2015, the rate of return is PLN 0.96 per one litre of oil. The limit of annual excise tax refund in the year 2015 is PLN 82.56 per 1 ha of agricultural land. In the year 2014, more than 1 million farmers applied for a return, i.e.

about 13 thousand more than in 2013. In 2014, agricultural producers submitted more than a million applications for a total amount of approx. PLN 776.3 million [Coraz więcej... 2015].

In conclusion, it should be emphasized that the rules for the taxation of goods and services in the European Union are standardized. Preferential taxation in relation to the flat rate of VAT refunds in agriculture covers most of the EU countries as a result of EU directives. Only two countries: the United Kingdom and Denmark do not have specific rules when it comes to VAT in agriculture [Tait 2001]. The specificity of the specific tax solutions leads to a privileged treatment of this sector of the economy. This means a flow through the tax system transfers that indirectly support agriculture. They are generally financed from the budget deficit or increasing taxes on other taxpayers [Dziemianowicz, Przygodzka 2004]. It can therefore be argued that in this case the VAT does not comply with fiscal functions. Tax benefits in this case fulfil specific social and economic objectives, which are also attributed to the taxes.

The specificity of tax solutions for agriculture involving the lower taxation of this sector is present in most countries worldwide, since it is an important role in the economic policy of the country [Bird 1974]. According to the World Bank research on tax incentives in agriculture, VAT has essential meaning developing Countries [Krueger et al. 1998].

### **Indirect taxes in agriculture in the light of the results of the survey**

A very important issue – in the indirect taxes taxation system in agricultural activity – is the opinion of the farmers in this area. As part of the survey conducted among the farmers in Middle Pomerania 43% of farms were rate farmers (108 farms), 23% were VAT farmers (58 farms) and 23% subsistence farming (84 farms). The analysis of the results of research carried out among a group of VAT farmers due the fact that 48% of respondents who are registered for VAT believes that the current system of VAT settlement on agricultural activity based on general principles positively affects the investment decisions of farmers, while only 14% of respondents farmers negatively evaluate this method of settlement in the context of investment decisions (Tab. 2).

The big difference between the basic rate and the reduced rate of VAT in Poland is an important element influencing farmers' decisions on the choice of settlement on so called general principles. In the case of equality of the basic rate with the reduced rate, 62% of farmers indicated that the decision with regard to the continuation of settlement on the basis of general principles will make the extra calculations, 16% said they are willing to resign from this form of settlement of VAT, while 22% of farmers will remain on general principles.

Table 2. Impact of the current system of VAT settlement on agricultural activities on the basis of the general principles in the investment decisions of farmers in Middle Pomerania

*Tabela 2. Wpływ obecnego systemu rozliczania podatku VAT w działalności rolniczej w oparciu o zasady ogólne na decyzje inwestycyjne rolników Pomorza Środkowego*

Specification/ <i>Wysszczególnienie</i>	Number of agricultural holdings/ <i>Liczba gospodarstw rolnych</i>	Structure/ <i>Struktura [%]</i>
A positive effect on investment decisions in agriculture/ <i>Wpływa pozytywnie na decyzje inwestycyjne w rolnictwie</i>	28	48
A negative effect on investment decisions in agriculture/ <i>Wpływa negatywnie na decyzje inwestycyjne w rolnictwie</i>	8	14
There is no effect on the investment decisions of farmers/ <i>Nie ma wpływu na decyzje inwestycyjne rolników</i>	22	38

Source: own study based on survey research

*Źródło: opracowanie własne na podstawie badań ankietowych*

However, the design and the method settlement for VAT on general principles forces many farmers to enlist the help of others or use the services of tax or accounting offices. Of the farmers surveyed, only 29% make accounts for VAT on their own. Most use tax or accounting offices, i.e. 36%, while 34% of farmers use the help of family, friends, or agricultural advisory centres.

Another indirect tax that affects investment decisions in agriculture is excise tax. But in this case it should be called a tax expenditure, because in the case of agricultural activity, a refund is obtained on excise duty on fuel purchased for agricultural purposes [Rosiński 2014]. Most of the surveyed farms benefit from repayment of excise duty on fuel purchased for agricultural purposes, i.e. 166 respondents representing 66%. The important news is that according to 32% of the surveyed farmers, the refund on excise duty has a positive influence on decisions related to the purchase of investments, such as the purchase of machinery, agricultural machinery, land, farm modernization.

### Summary and conclusions

An analysis of indirect taxes in agricultural activity showed a positive role in their investment decisions by farmers. Indirect taxes in agriculture are non-fiscal instruments rather than fiscal. Specific solutions to VAT in agricultural activities allow farms to choose a particular method of accounting for VAT. It allows a refund in the lump sum method or in many cases, the choice of preferred methods of settling on general principles with a large excess of input tax. This wider spread between the reduced rate for agricultural products and basic rate determines tax settlements on the basis of general principles. The decisive factor in tax settlement on general rules for farmers VAT, are investment decisions, which is confirmed by the results of the survey. The ability to obtain refunds on excise duty on purchases of fuel for agricultural purposes has a positive impact on investment decisions of farmers.

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### **Streszczenie**

*Celem artykułu było przedstawienie specyfiki opodatkowania działalności rolniczej podatkami pośrednimi w Polsce, analiza wysokości stawek podatku VAT w krajach Unii Europejskiej oraz przedstawienie wyników badań ankietowych dotyczących podatków pośrednich w rolnictwie. Podatki pośrednie, tj. podatek VAT oraz podatek akcyzowy, powodują rozwarstwienie ceny na rynku towarów i usług. Wykorzystano dane statystyczne pochodzące z raportu Komisji Europejskiej pt. VAT rates applied in the Member States of the European Community; Situation at 1<sup>st</sup> Januar 2015 oraz wyniki badań ankietowych przeprowadzonych wśród gospodarstw rolnych Pomorza Środkowego. W działalności rolniczej zasadnicze znaczenie ma rozpiętość stawek podatku VAT pomiędzy stawką podstawową a obniżoną odnoszącą się do produkcji rolnej. Powstała różnica powoduje często nadwyżkę podatku naliczonego nad należnym i skutkuje otrzymywanym zwrotem podatku dla rolnika. Rolnik w zależności od metody wyboru opodatkowania VAT ma także możliwość otrzymywania zwrotu ryczałtowego VAT. Możliwość otrzymywania zwrotów ryczałtowych rolnik otrzymuje także w podatku akcyzowym przy zakupie paliwa przeznaczonego do celów rolniczych. Specyficzne rozwiązania podatkowe dla rolnictwa związane z podatkami pośrednimi implikuje zaliczeniem ich do preferencji podatkowych i w istotny sposób wpływa na decyzje inwestycyjne gospodarstw rolnych.*

Correspondence address

Dr Rafał Rosiński

Koszalin University of Technology

Faculty of Economic Science

Kwiatkowskiego Str. 6E, 75-453 Koszalin, Poland

e-mail: rafal.rosinski@tu.koszalin.pl