

The influence of cost taxes on the development of agriculture in Slovakia

Vplyv nákladových daní na vývoj slovenského poľnohospodárstva

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Abstract: The author deals with the influence of cost taxes on the development of agriculture, mainly those taxes, which have an important impact from the point of view of forming an entrepreneurial environment in agriculture. Among the cost taxes, the impact of land tax, building tax, road tax and income tax is most important. The analysis also deals with the contribution to the insurance funds related to employees. This contribution can also be considered as a taxation. The article also gives a prediction of the expected development of the consequences of the accepted tax law changes.

Key words: tax, cost tax, land tax, building tax, road tax, income tax

Abstrakt: V článku je venovaná pozornosť vplyvu nákladových typov daní na vývoj poľnohospodárstva, ale v ich rámci iba tým, ktoré majú významný dopad z hľadiska ovplyvňovania a formovania podnikateľského prostredia v poľnohospodárstve. Jedná sa najmä o prezentovanie dopadu dane z pozemkov, dane zo stavieb, cestnej dane a dane z príjmov, predovšetkým u právnických osôb. Do analýzy je zahrnutá aj oblasť odvodov do poisťovních fondov v súvislosti so zamestnávaním pracovníkov, ktoré je možné z hľadiska obsahového považovať za ďalšie dodatočné zdanenie.

Kľúčové slová: daň, nákladová daň, daň z pozemkov, daň zo stavieb, cestná daň, daň z príjmov

INTRODUCTION

The development of agriculture in Slovakia in the nineties is characterised by a large number of negative trends which have the following consequences: general losses of agriculture, prime and secondary insolvency, decrease of the production intensity and efficiency, decreasing expense and quality competition to market the products, increasing risk factors for investors and creditors, reduction of qualified labor and low retirement position of agricultural workers.

One of the causes of the current situation in agriculture is the existing tax system, which does not respect the natural and biological specialities of agriculture. The aim of the following analysis is to evaluate the influence of the tax policy on the development of agriculture in Slovakia during the years 1993–2001. The attention is focused on the debit of agriculture by means of tax of expenses, on the implementation of tax allowance and other advantages and on the possible measures in tax system, which should help to stabilise the existing situation. The influence of the tax system on the development of Slovak agriculture was evaluated by Chrastinova (1999) and Bojnansky (1996, 2001). Buday (2000) focused on land tax and its value fixation.

MATERIAL AND METHODS

The analysis is based on the data from the Information letters of the Ministry of Agriculture of the Slovak Republic summarised for particular regions during the years 1993–2001. The data represent 80% of the total number of agricultural enterprises and approximately the same percentage is valid for the agricultural land used. The basic analytic method is the calculation per ha of agricultural land or the number of workers. The basic method of evaluation is the comparative method of these parameters during a certain period of time. Although the analysis is focused on the influence of the tax system on the development of agriculture, it seemed necessary to take into account the contributions to insurance funds, i.e. social expenses mainly in the form of legal insurance paid by an employer for the employment of his workers. The above-mentioned contributions must be regarded as an additional tax expense, also known as tax quote II.

RESULTS AND DISCUSSION

The influence of cost taxes, that is direct taxes and contributions to insurance funds, is shown in Table 1 and Figure 1. In general, it can be assumed that the portion of

Table 1. Cost taxes and contributions to the insurance funds in agricultural production in Sk/ha – selected group

Parameter	1993	1994	1995	1996	1997	1998	1999	2000	2001
Cost taxes	723	577	576	572	604	463	514	524	600
Contributions to insurance funds	1 568	1 683	1 789	2 108	1 921	1 857	1 776	2 194	2 250
Cost taxes and contribution to insurance funds	2 292	2 260	2 365	2 680	2 524	2 320	2 290	2 718	2 850
Total sum of costs	25 240	25 608	27 770	27 582	30 455	31 589	32 100	32 627	33 000
Economic result	-3 185	-1 227	-1 222	-920	-376	-711	-1159	-336	-100

Source: Information letters CD Ministry of Agriculture SR
 Note: 2001 – estimation

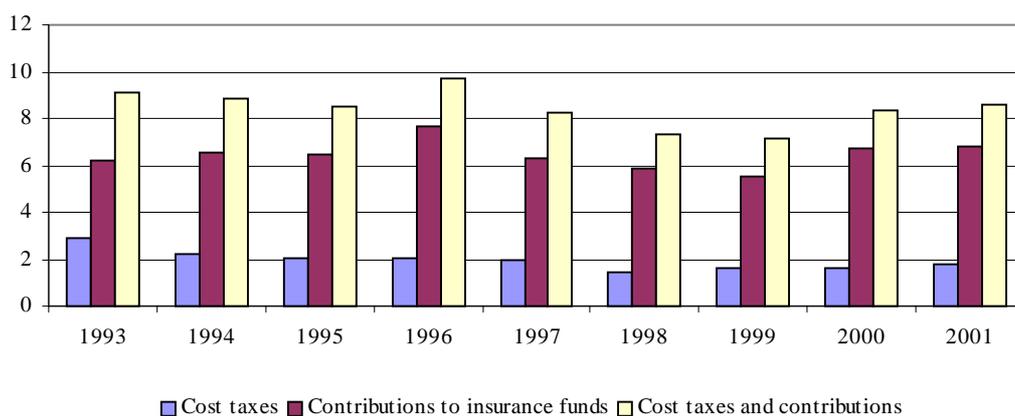


Figure 1. The portion of cost taxes and contributions to insurance funds with relation to the total costs (in %)

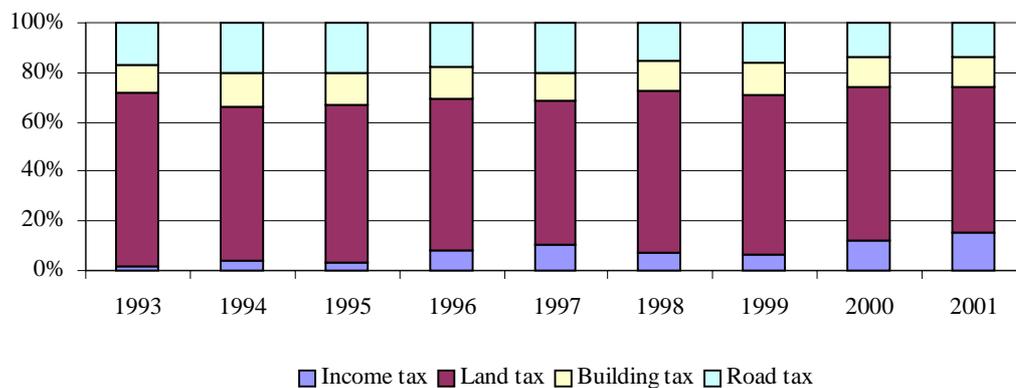


Figure 2. Structure of the cost taxes in %

direct taxes with relation to the total costs varied in a scale between 1.5% and 2.8% with the tendency of a slight decrease. In 2000 the value was 1.61%. This development is confirmed by data converted per 1 ha of agricultural land in Table 1. The portion formed by contributions to insurance funds varied from 5.5% to 7.6%, a relatively stable development. A detailed analysis shows a sinus development with a climax in 1996 and a subsequent de-

crease until 1999 for the direct taxes and in particular for the contributions to insurance funds.

The debit of the agricultural production by means of direct taxes and contributions to insurance funds stays on a relatively low level – between 7 and 10%. This does not mean, however, that the difficult situation in agricultural production would not benefit from decreasing the tax and the contributions. A more detailed analysis of the

development of direct taxes and its impact can be found in other parts of the article. From the point of view of the structural portions of specific expense taxes, (as it is shown in Figure 2) the land tax had a deciding influence on the tax debit of the agricultural prime production. The land tax was in average 5 to 6 times higher than the road tax or building tax. The influence of the income tax played hardly any role.

Land and building tax

In average, the land tax varied from 300 to 510 Slovak crowns per ha of agricultural land (as it is shown in Figure 2). Except for the year 1993, there is a slight decreasing tendency, which is connected with the following activities:

- the continuous changes of agricultural land into land for other purposes;
- shifting the less productive land from the category of arable land to the category of permanent grass crops.

The enormous decrease of the land tax in 1994 in comparison with 1993 was caused mainly by lowering the taxation rate from 1% to 0.75% of the official price for

arable land, hop gardens, vineyards and orchards, and from 1% to 0.25% for permanent grass crops.

The building tax varied on average from 80 to 60 Slovak crowns per ha of agricultural land with a slight decreasing tendency, which is connected with the transformation process in agriculture. As a consequence of this transformation process a number of buildings and constructions were not used for agricultural purposes any more. The reason for the tax decrease was the limitation or even stopping of the investment process in agricultural enterprises.

The share of the land and building taxes with relation to the total costs of agricultural subjects varied between 2.34% and 1.13% with a decreasing tendency (as shown in Figure 3). This decrease was caused by the fact that the rates of taxes were fixed during the whole period. So it is only natural that their share was decreasing with relation to the total costs.

From the point of view of agricultural enterprises, land tax is one of the most important cost taxes. The main factors, which influence its value, are tax rates and the land price. The setting of the land price seems to be problematic. The existing system of the central calculation of the land price can be valid only for a certain tran-

Table 2. Cost taxes on agricultural prime production in Slovak crowns per ha – selected group

Parameter	1993	1994	1995	1996	1997	1998	1999	2000	2001
Land tax	511	360	365	353	354	302	332	326	330
Road tax	123	118	118	103	123	70	84	73	85
Building tax	79	76	73	71	65	57	64	63	75
Income tax	10	22	20	46	62	34	34	62	110
Total costs	25 240	25 608	27 770	27 582	30 455	31 589	32 100	32 627	33 000
Economic result	-3 185	-1 227	-1 222	-920	-376	-711	-1 159	-336	-100

Source: Information letters CD Ministry of Agriculture SR

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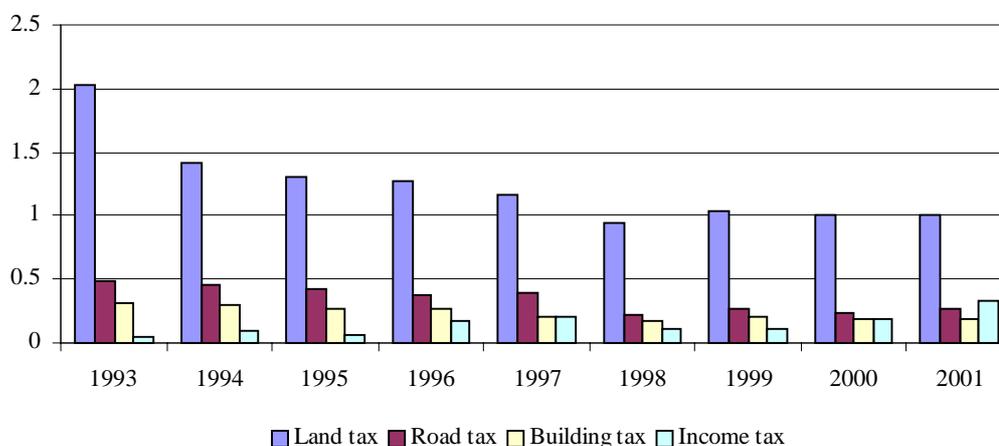


Figure 3. Portion of cost taxes in relation with total costs in %

sitional period. Later on the fixed prices will have to be changed into indicative prices. These prices will form a basis for setting the market price of agricultural soil and its taxation as is the case in most countries of the European Union.

Road tax

Agricultural enterprises have to pay a road tax only for a limited number of vehicles and trailers as the important means of transport used by agricultural enterprises are tax free. The subjects of taxation are passenger cars, lorries or special vehicles not belonging to the group of tax free vehicles. Because of the above-mentioned reasons, the impact of the road tax on agricultural subjects is limited.

The total sum of the road tax in the selected group had a decreasing tendency with a certain stabilisation during the last three years of the evaluated period. The only exception is the year 1997 when the road tax slightly increased.

In average, the road tax debit varied in a scale between 70 and 130 Slovak crowns per ha of agricultural land. The decreasing tendency is connected with the following:

- big limitations of investment into means of transport in agricultural enterprises;
- laying up idle or useless means of transport (the production they were used for was cancelled).

The decreasing of the road tax debit would have been even more distinct if there had not been a partial increase of the tax rates for selected passenger cars in 1997 and a complex tax rate adjustment for all cars in 2000.

Income tax

The income tax debit varied in average in a scale from 10 to 60 Slovak crowns per ha of agricultural land. It reached its highest value in 1996 and 1997 thanks to the relatively better economic results of the agricultural enterprises in that period. In 2000, it amounted to 62 Slovak crowns per ha as a consequence of the tax measures enforced by the new income tax law, which is valid since 1. 1. 2000. The full extent of this law will be visible only in the coming years. In general, it can be said that the income tax forms just a negligible debit during the best years from the economic point of view: the portion of income tax with relation to the total costs represented 0.2%. This is the reflection of generating perpetual losses of agricultural enterprises.

To estimate the development of the impact of the income tax, the legislative changes of the new income tax law have to be taken into account – mainly the following:

- Possibilities of tax loss deduction arose in the three following taxation periods during 5 years on condition that the same sum as the deducted loss will be invested

in the acquisition of tangible assets. We assume that this measure will have a positive influence on the income tax debit of agricultural enterprises.

- The changes valid since 2000–2001 have had a negative influence on the value of the tax basis. According to the law changes, the whole number of costs is included into the tax basis only after paying. This applies mainly to insurance and tax expenses and costs for commercial services. Many agricultural enterprises have long-term insolvency problems and for paying indebted insurance they have an instalment plan.
- The tax rate lowering for juridical persons in agriculture from 20% to 15% since 2000 should have a positive influence.
- Since 2000, there has been a substantial change in the income tax law with relation to the taxation of investments and running subsidies. These become part of the tax basis. The quantification of the influence of this change will only be possible after a certain period. But according to the annual volume of the given investments and running subsidies to agriculture, this can be estimated to amount to tens if not hundreds of million crowns every year because of the increasing income tax duty.
- The change in the taxation of natural persons in agriculture. Since 2001, they have been taxed adequately like legal persons. This means that half a tax rate is applied to them.

CONCLUSION

In general, we can say that the direct taxes and contributions to insurance funds form in average 8–9 % of the total expenses in agricultural enterprises. We also have to count the so-called “clear” impact of the excise tax on diesel (0.5–1 % of the total expenses). For agricultural subjects, it has the character of expenses as well. We assume that due to the accepted legislative changes about the income taxation in 2000, the direct taxes impact will increase during the following years because of increasing income taxes which amounted to about 0.2 % of the total expenses.

The impact of the direct taxes and contributions to insurance funds is multiplied by the following:

- It is considered as a cost only after it has been paid;
- The full payment of taxes and contributions for a particular tax period is required when a state subsidy from the state budget for the following year is applied for.

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