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LEGAL INNOVATIONS IN TAXATION OF THE AGRARIAN SECTOR OF THE ECONOMY

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Annotation. *In the article, the authors reveal the peculiarities of taxation of the agrarian sector of Ukraine in the pre-war period and during the war, and compare it with the tax legislation of a number of European countries. The authors analyze the effectiveness of the current system and suggests ways to improve it. The authors examine the experience of taxation of agribusiness in developing countries, analyzes conceptual and practical problems associated with different tax regimes. This article examines the legal regulation of taxation of the Ukrainian agricultural sector of the economy, identifies the problems of regulatory regulation and suggests ways to optimize the tax burden on agricultural producers.*

Keywords: *taxation, tax policy, agribusiness, state support for agribusiness, agriculture, agricultural production entities.*

Introduction. The agricultural sector is a strategically important segment of food security in most countries. The new challenges faced by Ukraine due to military aggression require innovations in the issues of state support for the agricultural sector in general and its taxation in particular. All means of state regulation of the agricultural sector should be primarily aimed at ensuring its successful development and efficient functioning. The development of Ukraine's agricultural sector requires solving institutional problems of agricultural production. The study of regulatory and legal sources shows that the state economic policy is implemented primarily through the mechanisms of tax policy, which has been subject to constant changes in recent years. Such variability of approaches to taxation is not a guarantee of investment attractiveness of the agricultural sector [1].

By its nature, the tax system is the most important instrument of state influence on agricultural relations, combining the entire system of relevant taxes. Thus, taxation of agricultural entities is a component of the state's agricultural policy as a whole. Taxes, provided they are of an optimal form and size, are more efficient and less likely to stimulate inflation than other government financial levers. At the macro level, the tax impact on

agricultural production is one of the most important methods of indirectly regulating the relevant type of prices.

The purpose and objectives of the study. The purpose of this article is to study the taxation of the agricultural sector in the system of implementation of Ukraine's economic policy, as well as to identify the advantages and disadvantages of the taxation system and to formulate recommendations on the choice of taxation system for agricultural entities.

To achieve this goal, the authors use general scientific and special methods: induction and deduction, dialectical method of cognition, theoretical comparison, method of system analysis, observation and synthesis.

Literature review. In the legal literature, agricultural taxation is considered in two ways.

Agricultural economists Kulawik, J., Lelong P.Y., Pavovska-Tishko J., Soliwoda M. [12] highlight the specifics of the agricultural sector (seasonality, spatiality, conditioned by biological and natural factors) as a distinctive, specific feature of this segment of the economy. Modern theories increasingly consider agriculture as an integral part of the economic growth process.

In most developed countries, tax reforms have been carried out to adapt legislation to modern economic realities. The intended effect was to simplify and reduce the number of taxes, lower their rates and broaden the tax base. Thus, Gruzziel K. believes that the preferential taxation of agriculture is justified by the dependence of agricultural production on natural and climatic factors [2, p. 101].

At the same time, according to Rosieski R., an important aspect of tax policy is the taxation of agriculture as a method of state influence on producers in the food, chemical and a number of other industries in order to ensure budget revenues to fulfill its economic and social objectives. Tax systems play an important role in economic processes, influencing the state of the actors involved in the management process and stimulating the competitiveness of a particular country by, among other things, supporting the development of its selected economic sectors, supporting resource saving and household savings [19].

The specific conditions of agricultural activities contribute to the formation of numerous theories on the procedure and scope of taxation of this segment of the economy. The range of tax structures used depends on the contribution of agricultural production to the economy of a given country, climatic and natural conditions, the degree of technological development and the structure of the tax system [3, p. 7].

In practice, the European Union agricultural taxation model usually consists of two levies taxes on income, property, or property used for agricultural activities. The use of such models is justified by the specifics of agriculture, where the factors of production are of primary importance: land, labor and capital. Land is taxed in the form of a single land tax or several property taxes (usually on property). Labor and capital in combination with the land factor manifest as agricultural activity, and its result, i.e. income or revenue, is subject to taxation. Tax harmonization is a measure aimed at achieving relative uniformity of tax systems [4, p. 4005].

Orziak L. [18] defines tax harmonization as a decision between optional coordination

of national tax rules and their full harmonization in all EU member states. Full harmonization of tax systems is not the EU's goal, mainly due to the diverse national interests of individual countries. Such harmonization is aimed at minimizing potential distortions of the Community's common market. This may concern both rates and principles of determining the tax base.

In EU countries, the farmers are generally subject to the same tax rules as other social and professional groups. From the point of view of Wasilewski, M., Mądra-Sawicka M., Ganc M., Gruziel K., the agribusiness in the EU benefits from tax preferences based on the specifics of production, but also uses special solutions applied in non-agricultural sectors. Agricultural taxation systems focus mainly on taxation of agricultural income, agricultural property, goods and services [22].

Results obtained. From the point of view of agricultural activities, the role of the state is very important, both in regulating economic relations and in creating an institutional framework for improving the investment climate and encouraging investment activities of stakeholders. As a regulator of various social processes, the state plays an important role in taxation, thereby establishing a market equilibrium between agricultural producers.

In an attempt to regulate its tax system in a comprehensive manner without hindering market space, the state must simultaneously achieve fiscal, political, economic, social and other goals through taxation of the agricultural sector. The scale of the tax burden on agriculture as a type of economic activity is important for achieving a sustainable level of development in this sector. Therefore, the taxation of agriculture should be approached with full respect for the goals and economic interests of stakeholders [15, p. 16].

The problem of reducing the tax burden has been extremely relevant for a long time. However, tax cuts alone will only lead to a shortage of funds in the state budget revenues. Therefore, it is important to have a systematic approach to this issue and rules that are transparent, unified and adapted to the specifics of different areas and conditions of agricultural production, which are equally applicable to all agricultural entities. The most important issue is the fair distribution of the tax burden [6, p. 462].

This requires an active role of the economic and political authorities, which is expressed in the application of the necessary regulations in the process of establishing a balance in the agricultural market. Within the framework of economic taxation policy, the state plays the role of a regulator of national income distribution, a distributor of funds, a stabilizer of market fluctuations and a catalyst for economic growth [11, p. 478]. The tax system plays an important role in mobilizing financial resources of the society with its peculiarities and specific tasks performed at a certain stage [10, p. 82].

The formation and development of a market economy based on private property is accompanied by business expansion through reinvestment and the creation of small enterprises, the activation of various financial and credit institutions, which will lead to an increase in the number of real taxpayers in the future, as a guarantee of post-war recovery. Due to uncertainty or contradictions in tax legislation, relations between the state, represented by tax authorities, and small businesses as taxpayers are becoming more acute. Strengthening the financial and legal liability of taxpayers is based on the application of financial sanctions to offenders, which are measures of financial and legal

coercion. Such measures of state coercion are a necessary measure to ensure the rule of law, but only if tax procedures are clear, understandable and transparent.

The diversity of tax systems in EU countries allows for research and comparison of the conditions for the functioning and conduct of agricultural business. Different tax structures and different taxation rules for the same taxes lead to competition for production factors. In most EU member states, the existing agricultural taxation systems are the result of their evolution. Despite notable differences, the tax systems have many commonalities due to the nature and definition of tax as a historical category linked to the theory of statehood and private property [9, p. 473].

Taxation of agriculture is a specific area of tax policy, which is understood as a means of government influence on agricultural producers in such a way as to ensure budget revenues to achieve economic and social goals. If they are purely economic in nature, they relate, among other things, to the creation of material foundations for economic development and the welfare of society. Social objectives relate to the creation of conditions for: equal opportunities in obtaining employment and remuneration commensurate with qualifications, ensuring an adequate level of education, professional advancement and business potential. Tax policy can also have negative consequences, the extreme manifestation of which is a threat to the freedom of taxpayers (restriction of their subjective rights), depreciation of tax justice and, as a result, a decrease in the welfare of citizens [8, p. 159].

The current reality, the current political and economic situation in the world puts forward special requirements for ensuring food security of any state. One of the key tasks in the context of implementing the reform of agricultural business taxation is an effective tax mechanism as one of the institutions of a market economy, which allows, on the one hand, to solve the problem of increasing revenues to budgets of various levels, and, on the other hand, to promote the development of business entities both in the agro-industrial sector and in the economy as a whole [14, p. 24].

The weight of the agricultural sector in Ukraine's economy was quite significant in the pre-war period and amounted to about 9-13% of gross value added, which is one of the main budget-forming components of the national economy, accounting for about 20% of our country's budget in recent years and more than 25% of our exports. After the start of Russia's full-scale invasion of Ukraine, the Ministry of Agrarian Policy of Ukraine ("the Ministry") raised its harvest forecast in 2023 in view of better yields of major crops. As of the end of September, the Ministry estimated the future harvest of grains and oilseeds at 79 million tons. This is an increase of 7 million tons (+10% compared to last year). At the same time, initial estimates of the harvest were much worse (at 63-64 million tons), as the sown areas were reduced this year due to the mining of large areas. Exports of agricultural products, despite the shelling of port infrastructure, increased to USD 1.55 billion in August 2023 (against USD 1.29 billion in July).

At the same time, experts remain negative about the outlook for foreign trade in goods. The trade deficit has been increasing since the beginning of the year: up to USD 16.6 billion for 8 months of 2023, which is three times more than in the same period of 2022. Export logistics are limited. Russia intensifies shelling of ports and related

infrastructure in the Podunavlje region.

The extension of the agricultural embargo by neighboring EU countries will increase logistics costs and worsen the financial condition of agricultural producers in Ukraine. Therefore, the government is obliged to offer compensatory tax mechanisms for agricultural producers in order to preserve the industry. Ukraine's agricultural sector now accounts for about 60% of total merchandise exports, which in turn is a foreign currency inflow and a significant factor for the hryvnia exchange rate. In general, Ukraine and Ukrainian farmers are an important element and guarantor of global food security, so we can hope for financial support from international institutions in reforming farm taxation [16, p. 12].

Therefore, regulation of the taxation system should be the main function of the state in regulating the agricultural economy. The most developed countries practice differentiated taxation of agricultural producers. For example, in France, there are several taxation systems, and agricultural producers, organizations that are not engaged in retail trade and related activities, have the opportunity to choose a particular method of taxation that is most optimal for their business structure. All of this points to the need for more flexible approaches to the establishment of tax privileges and quotas in the agricultural sector of the national economy of Ukraine, especially in wartime and post-war. In particular, there are enterprises that pay 60-70% of the total tax payments, and there are those that pay from 5 to 12% (because they have found opportunities for tax evasion). Reducing the tax burden on all agribusinesses should have a positive impact on the economic growth of the agricultural sector and the Ukrainian economy as a whole [7, p. 238].

On March 1, 2021, the amendments to the Tax Code of Ukraine introduced by the Law of Ukraine No. 1115-IX of December 17, 2020 "On Amendments to the Tax Code of Ukraine on the Value Added Tax Rate on Transactions for the Supply of Certain Types of Agricultural Products" came into force. Such tax innovations have caused fierce debate among agricultural market participants and ambiguous expert opinions, as they can significantly reduce revenues and are aimed at promoting the development of large agricultural holdings [21].

In particular, it provides that the value added tax (VAT) rate should be reduced from 20% to 14% on the supply, export and import of certain agricultural products to Ukraine. These are primarily raw materials (wheat, barley, oats, rye, sunflower seeds, rapeseed, corn, flax, soybeans, sugar beets, cattle, etc.), which are mostly exported directly or through processing and mostly do not reach the final consumer in Ukraine. The most significant share of the above is raw materials for exported goods, which ensure Ukraine's leading position in the global agricultural markets and are the "fund" for ensuring food security in our country [17]. That is why it is considered more appropriate to change the VAT to final consumption goods or to agricultural products that are conditionally ready for consumption, such as fruits and vegetables.

According to the forecasts of scientists of the Institute of Agrarian Economics, if the current trends continue, in particular in domestic seed production, as well as against the background of reduced state support for domestic breeding, imports of foreign seeds to our country may triple, namely to \$1.5 billion, and eventually lead to the complete displacement of domestic varietal products from the market of seeds and planting

material, which in turn poses potential risks to Ukraine's food security in general and its export opportunities in particular [23].

The agricultural tax is applied in many EU countries and is an element of their tax system. A characteristic feature of the agricultural tax is that it is not tied to potential or actual agricultural income, but to agricultural activity. There are many different definitions of agricultural activity in EU legislation, but their common feature is the reference to the concept of economic activity and its link to the land used for agriculture.

The general principle is to consider the agricultural tax as an instrument of economic and tax policy, in particular by shaping the level of income received by farmers.

Due to the specifics of agriculture, designs are often used to reduce the tax burden borne by farmers. In the EU, farmers' incomes were initially taxed under the welfare scheme, with the average income determined based on their area or number of animals they own. Currently, the agricultural tax is differentiated by adopting different rules for determining the tax base or different definitions of income and expenses.

There are two models of agricultural taxation in the EU: the British and the Continental models. The British model is characterized by the taxation of agricultural activities, in principle by income tax, in the same way as non-agricultural economic activities are taxed. This model is used in countries with a high concentration of land owned by a small group of entities. It should be noted that land used only for agricultural activities is excluded from property tax [20, p.31].

The continental model is characterized by the taxation of agricultural activities in the form of a single contribution as an income tax. The model prefers to levy a single tax on both the assets used in agricultural production and the income derived from agricultural production. The continental model has two forms: simplified and mixed. In the simplified form, two taxes are applied: income tax and tax on land used for agricultural production. The mixed continental model also uses two taxes: income and land used for agricultural production. This model uses two different methods for determining income. The differences in the methods used are not due to the nature of the business. For small-scale agricultural production, simplified methods of determining income are applied (fixed deductible expenses, income assessment standards, cadastral income method). Then, for larger agricultural activities, real income methods are applied.

As a general rule, income from agricultural activities is subject to income tax, and deviations, if any, are related to decisions made by the national legislation of individual European countries to determine income [13, p.79].

In most EU countries, agricultural enterprises (farms) operate as family farms without a legal entity, and personal income tax is the dominant tax. Current decisions confirm equal treatment of farmers and other taxpayers in financial matters. This confirms that the attitude to agriculture as an economic enclave in European countries is unfounded. Given the specifics of agricultural production and its dependence on natural and climatic conditions, tax systems have preferential structures, such as the right to deduct the cost of losses incurred or capital expenditures from taxable income.

Simplified accounting is the most commonly used form of preferences in EU tax systems. Within the EU tax structures, support for agriculture is not limited to tax

exemptions, but also includes certain simplifications and improvements that motivate taxpayers, among other things, to increase their economic activity [5].

Conclusions. To summarize, we note that today the priority in the field of taxation of the agrarian sector of the Ukrainian economy should be the formation of a state position aimed primarily at: preserving the potential of the industry for the fastest possible pace of post-war reconstruction; introduction of a simplified and at the same time fair and transparent taxation procedure; taking into account the specifics and peculiarities of domestic agricultural business depending on military operations, mining of territories, natural and territorial component; addressing the need to update the active part of the material and technical base, taking into account the appropriate tax regulation of agricultural production (development of a simplified taxation mechanism, the so-called portfolio of benefits/preferences, etc.)

Given the importance of the agricultural sector in ensuring food security (and not only in Ukraine), tax administration in the domestic agricultural sector of the economy is extremely important and requires the development of a system of effective regulators and optimization mechanisms by the state. After all, state support of the agricultural sector is the key to its sustainable development and ensuring food security of the state as a whole.

In addition, the direction of such state support should primarily concern small agricultural enterprises and provide a proper investment and innovation platform for the development of the domestic agricultural sector.

Each of the taxation systems that can be used by agricultural entities has its advantages and disadvantages. It is necessary to take into account the conditions in which a particular enterprise operates. The analysis of the evolution of tax legislation on the taxation of the agricultural sector shows a decrease in the state's protective mechanisms for business.

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