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AGRICULTURAL TAX – CONDITION AND PROSPECTS

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Key words: agricultural tax; taxation of agricultural farms, revenue of commune.

Abstract

During the recent years the issues of taxation on the family agricultural farms has been neglected frequently. Currently, with the discussions pending in Poland on the planned changes in that area, the issues of taxation imposed on agricultural farming requires a new approach.

The main aim of this paper is to analyze the actual tax burden on farms in Poland and to investigate the impact of agricultural tax on the formation of revenue of local government. However, an important is to consult opinions of the farmers about the individual tax burden farming structures as well as the entire system of taxation. It is important also to propose changes in the tax applied to the Polish agriculture. Suggested by farmers alternatives in the taxation of individual farms can be used as an attempt to adjust the tax system in our country, to the solutions applied in EU member states.

The paper presents the analysis of the taxation on family agricultural farms in Poland with particular focus on the agricultural tax. For the purpose of evaluating the actual burdens to the farms resulting from that title and the analysis of the volume of tax revenues to the budgets of selected communes in 2010, the method of secondary analysis of statistical data originating from the commune administration offices situated in the area of Mazowieckie voivodship was applied. It was analyzed the budgetary resolutions and reports on their implementation in the surveyed municipalities. The authors conducted the study using a questionnaire interview. The studies encompassing 200 family agricultural farms aimed at obtaining the opinions from farmers concerning the taxation system in Poland and possibilities of introducing changes proposed by the State.

PODATEK ROLNY – STAN I PERSPEKTYWY

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Słowa kluczowe: podatek rolny, opodatkowanie gospodarstw rolniczych, dochód gminy.

Abstrakt

W ostatnich latach problematyka opodatkowania indywidualnych gospodarstw rolnych była często pomijana. Obecnie, w świetle toczącej się w Polsce dyskusji nad planowanymi zmianami w tym zakresie, sprawy opodatkowania rolnictwa wymagają nowego spojrzenia.

Głównym celem pracy jest analiza faktycznych obciążeń podatkowych gospodarstw rolniczych w Polsce oraz zbadanie wpływu podatku rolnego na kształtowanie się dochodów budżetowych gmin. Nie mniej ważną intencją jest zasięgnięcie opinii rolników na temat poszczególnych konstrukcji podatkowych obciążających rolnictwo oraz całego systemu opodatkowania. Istotną kwestią jest również zaproponowanie zmian w polityce podatkowej stosowanej wobec polskiego rolnictwa. Sugerowane przez rolników alternatywy w zakresie opodatkowania gospodarstw indywidualnych mogą zostać wykorzystane jako próba dostosowania systemu podatkowego w naszym kraju do rozwiązań funkcjonujących w krajach członkowskich UE.

W pracy przedstawiono analizę systemu opodatkowania indywidualnych gospodarstw rolniczych w Polsce, ze szczególnym uwzględnieniem podatku rolnego. Do oceny faktycznych obciążeń gospodarstw z tego tytułu oraz analizy wielkości wpływów podatkowych do budżetów wybranych gmin w 2010 r. zastosowano metodę wtórnej analizy danych statystycznych pochodzących z urzędów gmin zlokalizowanych na terenie woj. mazowieckiego. Badania, którymi objęto 200 indywidualnych gospodarstw rolnych, miały na celu poznanie opinii rolników na temat systemu opodatkowania w Polsce oraz możliwości wprowadzenia zmian proponowanych przez państwo.

Introduction

Economic transformations in Poland, initiated in 1989, introduced the foundations of market economy in our country. Free market mechanisms have become the key regulators of social and economic processes taking place in the country that up to that moment was subject to stringent control by central authorities. The financial policy was to be the main component of the economic policy. This determined the new position for it within the Polish economic system, because projected reforms did not allow direct control of prices by the state. Given the circumstances that developed the role of other than price instruments of state influence on the society and the economy, particularly that of direct and indirect taxes increased significantly (PODSTAWKA 1995, KISIEL et al. 2012). In designing the new tax system in Poland, particular attention was focused on the tax law principles and the specificity of the national economy. However, the European Union requirements concerning harmonization of taxes in the Union countries were of superior importance.

Currently, local taxes and fees, including the agricultural tax, represent one of the sources of own revenues for the fundamental units of public administration in Poland, i.e. the communes (DĘBSKA-RUP 2002). Although agriculture employs ca. 15% of the total population (for comparison, in the other European Union countries farmers represent just 4.5% of the total population), the revenues to the budgets of communes from the agricultural tax are very low. This is the consequence of the fact that the subject tax does not fulfil the fiscal function of the budget.

Characteristics of the agricultural tax

Agricultural tax, which is one of the major charges on the owners of agricultural farms in Poland, is the subject of this paper. This is the non-refundable charge, free off additional fees and compulsory, imposed unilaterally by the State on the family agricultural farms. It is collected for the purpose of fulfilling the role of authorities represented by financing the needs of the community. The agricultural tax was introduced by the Act of 15 November 1984 on the agricultural tax and it substituted for the earlier progressive land tax. As if that moment it has been in effect in the almost unchanged form. It is levied on all the land lots (also those up to 1 ha) that are classified in the register of land and buildings as land under agricultural use of lands covered with trees and bushes for agricultural use, with the exception of land taken for conducting other economic activities than agricultural activities (*Act on the agricultural tax... 1984*).

The agricultural tax in its shape designed by the Polish legislature represents a classic variation of property tax. In case of it, possession or acquisition of property rights itself is subject to taxation in this case. The farmer is required to make payments even in case he conducts no activity on the land that is part of his farm or, which is even more, when economic activity on such areas generates financial losses.

The amount of the agricultural tax in Poland is based on the financial value of the taxpayer's property. Land, which is characterised by a certain level of stability as concerns both the quantity and quality represents the basic and at the same time the only type of property on the base of which the farm assets value is computed. The usable value of the land, in turn, is expressed using coefficients designed on the base of land productivity and differential location rent. They have been included in the Act of 15 November 1984 on the agricultural tax. Using those coefficients, the conversion of physical hectares of agricultural farms into the co-called hectares for tax computation purposes is conducted (PODSTAWKA 1995).

The choice of the taxation base results in consequences to the country on both the economic level and the technical level related to the procedure as well as collection of it. While computation of the taxation base represents a relatively simple task and raises no major objections the situation looks slightly different in case of agriculture taxation. The fact of considering only one income generating component of the farm assets, i.e. the usable value of land, causes that taxation of family agricultural farms is considered representing low level of precision and violating the principle of tax justice (GRUZIEL 2008).

Agricultural tax as the income of communes in Mazowieckie voivodship

From the perspective of the entities eligible to collect the agricultural tax its full amount represents own revenue of the communes. At the same time, it represents one of the most important sources for supplying the territorial government finance from taxes characterised by simplicity in design as well as strong links with the tasks of local authorities and territorial foundations of the territorial government units. For the purpose of determining the actual amount of revenues to the budgets of communes, analysis of reports from performance of the budget made available by three communes situated in Mazowieckie voivodship (Przasnysz – urban commune, Chorzele – urban-rural commune, Krzynowłoga Mała – rural commune) was conducted.

In 2010, in the commune of Przasnysz, almost 20% reduction in agricultural tax revenues was recorded caused by the official decrease in the price per 1 dt of rye that represents the base for accrual of the tax by 26% (as compared to 2009, when the revenues amounted to PLN 207,100.00 of which PLN 4,300.00 were funds from legal entities and other units that were not legal entities while PLN 202,800.00 originated from individuals that were taxpayers of the agricultural tax). The budget received the amount of PLN 160,800.00 (0.37% of total revenues during the budget year), which consisted of revenues from legal entities and other organisational units – PLN 3,500.00 and from individuals – PLN 157,300.00. The arrears amounted to PLN 5,729.42 (*Report from performance of the budget in the commune of Przasnysz... 2010–2011*).

In 2010, the planned revenue from agricultural tax in the commune of Chorzele amounted to PLN 355,606. Such a low amount considered already at the stage of planning was undoubtedly caused by numerous exemptions from the tax caused by the natural disaster that the droughts taking place during the season of 2009/2010 were considered. The actual revenues represented less than 1.5% (1.445%) of the total budget revenues amounting to PLN 384,725.76 i.e. 108.2% of the plan. The commune authorities forgave tax arrears amounting to PLN 3,224.73. In addition to the visible decrease in tax revenues, the decreasing trend could also be observed in payments of amounts due from individuals that were collected up to only 92.7% (PLN 381,840.76), while receivables from legal entities were collected 100% (PLN 2,885.00). At the end of the reporting period the arrears in payments amounted to PLN 31,851.67. Collection of those amounts was conducted on current bases – in 2010 the total of 123 collection writs were issued and passed to the Tax Office to the total amount of PLN 12,128.78 (*Report from performance of the budget in the commune of Chorzele... 2011*).

In 2010, the Council of the Commune of Krzynowłoga Mała projected the agricultural tax revenues at the level of PLN 371,600.00. The actual revenues

amounted to PLN 243,013.69 (2.362% of the total commune revenues), i.e. 65.4% of the plan. Despite the rye price increase to 37.64 PLN/dt (34.10 PLN/dt in 2009) and no decision by the Council of the Commune concerning the decrease of the maximum agricultural tax rate, only slightly more than a half of the revenues planned for 2010 from that tax was received by the budget. As it has already been mentioned, such a big decrease of revenues from that tax was caused by the disaster of poor yields in the area of almost the entire voivodship. The authorities of the commune decided to forgive tax liabilities to the amount of PLN 5,994.06. Also, 37 tax deductions for purchase of land were granted amounting to PLN 6,022.25 and 145 investment deductions to the total amount of PLN 101,568.31. As at the end of the reporting period the arrears in collection of agricultural tax liabilities amounted to PLN 57,953.96 (*Report from performance of the budget in the commune of Krzynowłoga M. ... 2011*).

Test sample characteristics

In the study the survey questionnaires was used consisting of questions concerning, among others, the farm size, number of hectares for tax computation purposes, type of agricultural activity or the level of income generated by the farm. Next, functioning of the Polish system of charges to agricultural farms and proposals for liquidation of agricultural tax to be replaced by the income tax were subjected to evaluation by farmers. The respondents could also present proposals for changes aiming at improvement of the agriculture taxation system effectiveness.

The surveys covered 200 family agricultural farm owners from the region of Mazowsze and Podlasie (FADN), within three communes of Mazowieckie voivodship (urban, urban-rural and rural). The farms situated in that voivodship are characterised first of all by developed agricultural structure and consequently the results of the survey concerning the size of agricultural farms surveyed come as no surprise. The farms not exceeding 15 physical hectares dominated: 36 farms were up to 5 ha and 72 farms from 5 to 15 ha in area. The survey covered also 64 farmers possessing farms within the range of 16-30 ha, 12 farmers that were owners of 31–50 ha of agricultural land as well as 16 large farmers with farms exceeding 50 ha (Fig. 1).

Soil quality that translates directly into the number of hectares for tax computation purposes that represent the base for taxation of agricultural land represents an important factor influencing the amount of agricultural tax paid. In the area covered by the survey the soils represent lower quality and consequently, among 200 respondents as many as 104 declared that their property was within the range of 3–5 hectares for tax computation purposes, 48 possess farms of 6–10 hectares for tax computation purposes, 28 farmers

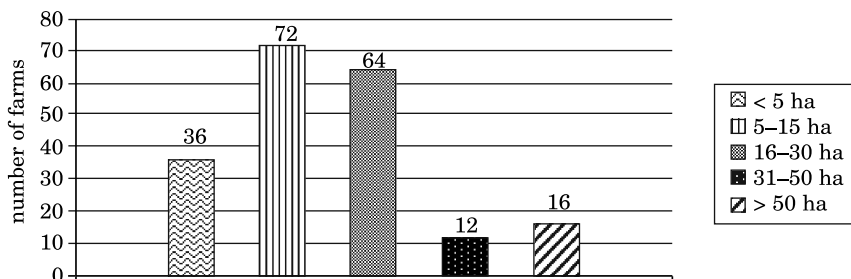


Fig. 1. Size of farms surveyed in physical ha

Source: own work based on the studies.

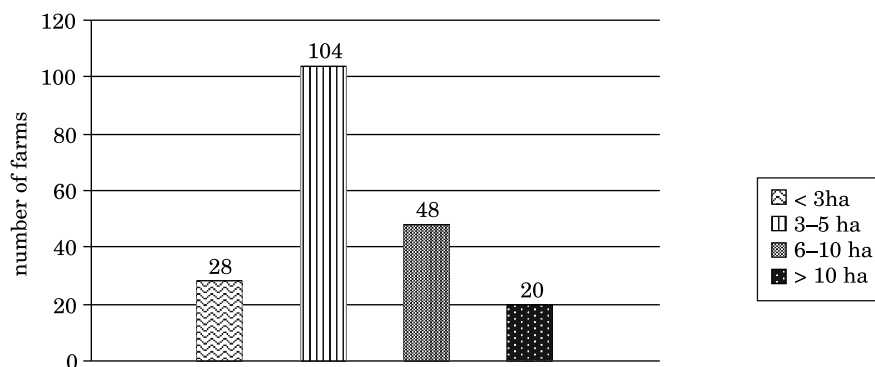


Fig. 2. Size of the farms surveyed expressed in the hectares for tax computation purposes

Source: own work based on the studies.

had less than 3 hectares for tax computation purposes, and 20 manage farms with in excess of 10 hectares for tax computation purposes (Fig. 2).

Agricultural tax levied by territorial government institutions is paid by 69.5% of the respondents. The other respondents (30.5%) indicate exemptions and forgiveness of the tax granted by authorities of the commune as the main reasons for non-performance of the tax duty. The levels of actual tax burdens in the surveyed farms are presented in figure 3.

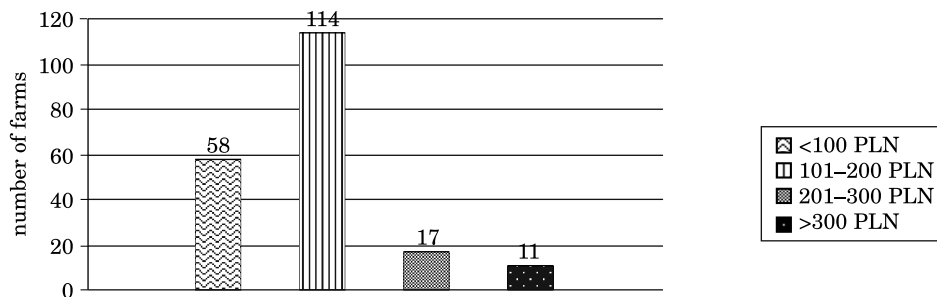


Fig. 3. Level of actual burdens of the agricultural tax

Source: own work based on the studies.

Evaluation of the Polish system of taxation on agricultural farms

The reforms at which the State is aiming that are of major importance for further integration of Poland with the European Union may not be implemented without first obtaining the knowledge on opinions of the people to which the decision taken will apply directly. The alternatives suggested by farmers as concerns taxation of family farms may be used as indications for adjustment of the tax system in our country to the solutions in force in the Union Member States. Harmonization of the Union systems of taxation represents one of the most important goals of the further integration.

In addition to acquiring important information concerning the size structure of farms, type of production or income group, the survey also aimed at testing the attitudes of Polish farmers concerning the taxation system in force in our country. According to the 1–10 scale (where 1 meant that the system works very badly and that immediate steps should be taken to improve the situation up to 10 indicating that the system is effective and changes to it are not required), the respondents were to evaluate the legal regulations and procedures currently functioning in the sector of agriculture and its entire environment. The results are presented in figure 4.

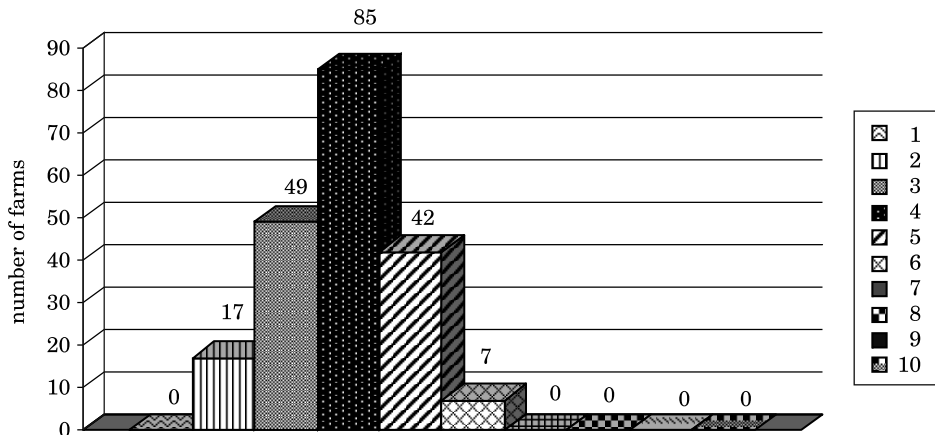


Fig. 4. Evaluation of the Polish system of taxation concerning agricultural farms
Source: own work based on the studies.

Among the responses, scores ranging from 2 to 6 dominated meaning that the farmers were quite sceptical about the system and indicated numerous defects of it. None of the respondents indicated a score higher than 6 meaning

that numerous weaknesses existed on the side of the authorities and officers responsible for the institutional environment of the taxation system. That attitude was justified, among others, by the excessively developed bureaucracy, injustice as well as excessive differences in interpretation of regulations by tax institutions at different levels. The respondents described the system as complicated while they considered the officers to be incompetent, possessing no knowledge of regulations as well as representing unfriendly attitude towards the clients.

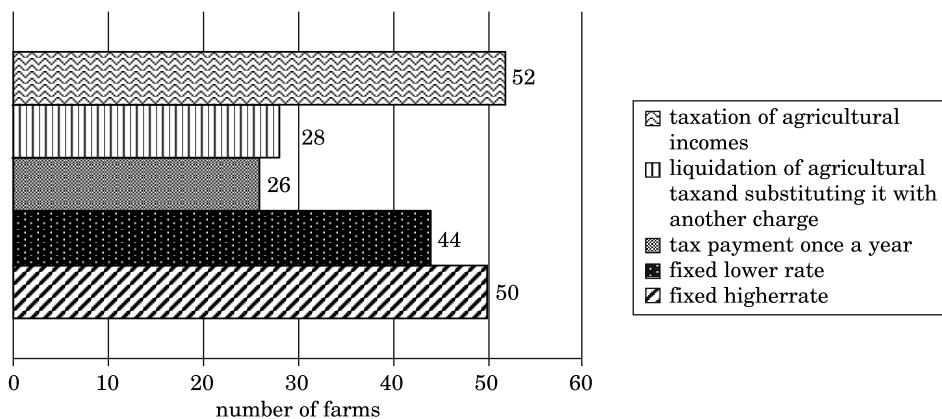


Fig. 5. Proposals of changes in the agricultural farms' taxation system

Source: own work based on the studies.

Farmers asked about their proposals that could improve functioning of the system for taxation of family agricultural farms proposed numerous solutions that could have positive impact on its effectiveness (Fig. 5). It was surprising that over 1/4 (52) respondents indicated implementation of income tax as an option that could substitute with success the fossilized structure of the agricultural tax. The other proposals included implementation of a fixed lower (44) or fixed higher (50) agricultural tax rate, liquidation of agricultural tax and substituting it with another charge (28) and the duty of making the agricultural tax payment just once a year (26).

The announced reform that is to introduce in Poland the income tax encompassing farmers represents a very important issue that may not be neglected here. That issue was also included in the survey conducted by the author. According to the respondents, the taxation base for the family agricultural farms should be based on the: revenues (8 respondents), assets (20 respondents), and incomes (52 respondents). More than a half of the respondents (120) presented negative attitudes to changes, which is confirmed by their position concerning the formulated question as they opted for the

currently effective taxation base in the form of the number of ha owned by them (Fig. 6).

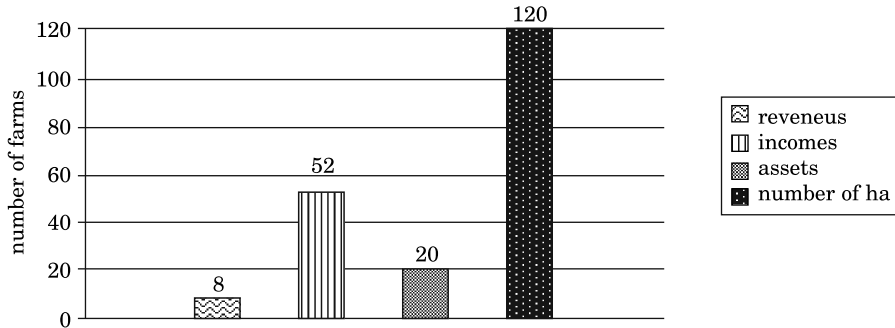


Fig. 6. Proposed taxation base

Source: own work based on the studies.

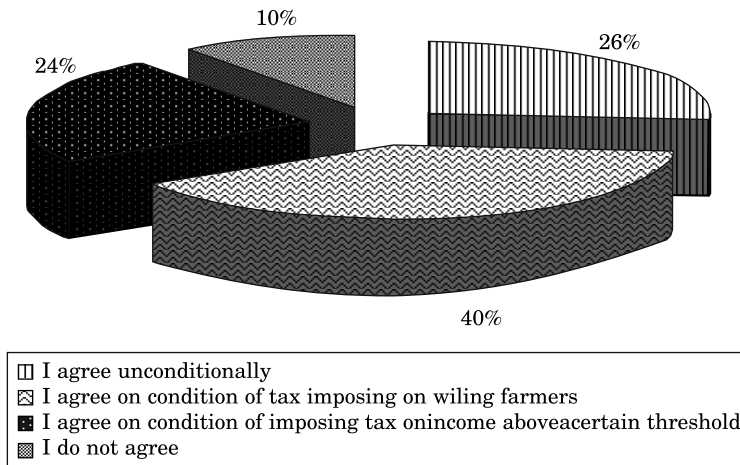


Fig. 7. Position of farmers concerning substitution of agricultural tax with income tax

Source: own work based on the studies.

Farmers also expressed their attitudes concerning the plan of agricultural income taxation announced by the government. The vast majority (74%) of the respondents expressed lack of support to that solution giving as the main reason the excessively low incomes in the sector of agriculture that could be burdened with payment of taxes. The remaining respondents (26%) supported implementation of the income tax and justified their opinion by numerous privileges offered by such a solution such as, for example, the duty of making payments only in case of generating income as well as numerous relief measures and deductions.

For the purpose of obtaining more detailed knowledge on the moods among the farmers, the respondents were also asked about their position concerning the substitution of agricultural tax with income tax (Fig. 7). That proposal was accepted unconditionally by the people that in the earlier part of the survey presented their clear position on that issue (26%) while 40% of the respondents would express consent if the tax duty was imposed on the willing farmers only and 24% in case if the taxation would apply to agricultural income only above a determined threshold.

Conclusions

The studies conducted allowed obtaining knowledge on the realities of conducting farming activities in Poland and evaluation of the actual tax revenues to the budgets of communes as well as their shares in the total amount of revenues. Based on the analysis of the results obtained the following conclusions have been formulated:

1. Revenues to the budgets of communes located in Mazowieckie region originating from the agricultural tax are at a low level and they represent from 0.4 to 4% of the total territorial government unit revenues. The spread of results is a consequence of the type of the commune where the study was conducted. The highest share is recorded in rural and urban-rural communes while the lowest in urban communes. At the same time a decrease in revenues from agricultural tax not related to the natural conditions in the amount of own revenues of the surveyed communes that may result from increasing their financial independence by, e.g. gradual increase of the share in the income taxes that are revenues of the state budget can be observed. For that reason substitution of the agricultural tax with income tax, assuming that the excess of that burden above the current agricultural tax would remain in the communes, could lead within a longer time perspective to an increase of communes' budget revenues in Mazowieckie region.

2. The structure of the farms surveyed matches the agricultural structure of the entire country. Polish rural areas are characterised by overpopulation and agricultural scattering, which is reflected in the results of the conducted studies. The significant dispersion of farms is characteristic as farms with the area of under 15 ha of physical area dominate.

3. In Poland, the agricultural tax of property tax nature is in force the amount of which depends on the area of agricultural land and not the value of the land owned. Despite unchanged from the year of construction, still enjoys a positive reputation among taxpayers. That way of levying is contrary to the accepted principles, particularly the principle of tax justice. Farmers, however,

give positive opinions concerning it because they realise their privileged position as compared to the other taxpayers and they know that substitution the agricultural tax with the income tax is necessary. According to the respondents, the advantage of implementing that charge may be the fact that economically strong farms would generate additional surplus by paying the agricultural tax to communes as that tax is low compared to the income generated by them.

4. The Polish system of taxation of agricultural farms was considered by farmers excessively complicated and unjust. In many cases using help of advisors is necessary. The farmers objectively described themselves as one of the most privileged groups of taxpayers. Excessively rapidly changing regulations and differences in their interpretation by tax authorities of different levels represent other weaknesses of the current system. Excessively developed bureaucracy, incompetence of officers and their unfriendly attitude towards the taxpayers also had significant influence on the critical opinions expressed by the respondents.

5. The respondents expressed sceptical opinions concerning implementation of income tax in agriculture. If, however, it is introduced for the willing land owners only or above a certain threshold of revenues generated by them, they would agree to pay it. As it is known, however, public consultations on that issue will not be conducted any more as implementation of the reform has already been decided. Implementation of the postulated changes represents a long-term and complicated process and that is why that time should be used for implementing numerous information activities among farmers thanks to which they would realise the benefits that could be obtained as a consequence.

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