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The value added tax: The impact of procedures applied to agricultural producers (reverse charge, quota reducing and the exemption from vat)

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THE VALUE ADDED TAX. THE IMPACT OF PROCEDURES APPLIED TO AGRICULTURAL PRODUCERS (REVERSE CHARGE, QUOTA REDUCING AND THE EXEMPTION FROM VAT)

Case study: wheat, flour, bread and bakery products

MIRCEA TOMA¹

Abstract: *The introduction or elimination, increase or decrease of taxes and contributions, theoretical and practical, can not ignore the direct and / or underlying effects (collateral) on chain: Financial institutions ⇒ Suppliers of inputs ⇒ Agricultural producers ⇒ En-gross traders ⇒ Processing industry ⇒ En-detail traders ⇒ Consumer ⇒ State Budget. Solutions require transparency, solidarity, equity, social justice in the distribution of efforts and usufruct (profit) for the whole chain participants in achieving useful goods and services to human society. A particularly aspect has VAT with effect from 1 July 1993, as a Romanian fiscal system compatible with EU procedures. By the additions and changes to VAT management procedures for agricultural activities (exemption from VAT of individual producers, the reverse charge in the production of cereals and technical crops, reducing the quota of VAT collected on chain at 9% for bread), fiscal inequity was created between farmers according to the legal status of the organization and operation, between sectors of agricultural production, but also to the users of agricultural production. The most disadvantaged are those of 3,859,000 individual farmers, family farms and associations without legal status, that use*

7.45 million ha (56% of the total utilized agricultural of 13,306,000 ha).

The study conclusion *is the need of adapting VAT management procedures to the realities of Romanian agriculture by recognizing VAT on inputs used for agricultural production by individual producers, legal unorganized, valorised at the economic agents. By the recommended measures the individual producers' incomes grow by about 13-15% (300-500 lei / ha wheat equivalent) without affecting the cost of raw materials to users of agricultural production, even if it increases the financial effort for its purchase. There are eliminated the discrimination between sectors of agricultural production (crop, livestock, horticulture, wine and fruit growing, fish, etc.), there are created conditions for the consolidation of farms and unblocking the association process and the formation of producer groups and / or agricultural cooperatives and a better use of financial resources and grants. It increases the efficiency and contribution of agriculture to the state budget revenues. Those 3,859,000 of individual producers (individual businesses, family farms, associations) legal unorganized, and the 31 thousand companies with legal personality for the 5.856 million ha (44%) of operation. (RGA-2010) beneficiate the measures proposed. Agricultural production is included in the fiscal system, the receipts and payments are fluidized and reduce the pressure for VAT refunds from the state budget (about 108 million. Lei / year for the wheat used for bread). It reduces the phenomenon of unfair competition and tax evasion area, bureaucracy, abuse and corruption. Fees, taxes and contributions should not be treated as simple budgetary resources, but also as effective tools of orientation farmers, and not only, through the level, mechanisms, procedures of charging and taxing that the state institutions can promote for the stabilization and improvement production and supply of agricultural services as part of a functioning market economy.*

Keywords: *VAT, reverse charge, exemption, reduced VAT rate, VAT collection; tax evasion, farms, farmers, financial resources, efficiency, economic crisis, budget revenues.*

I. The issue of agriculture versus the value added tax

1) General considerations

The rural space, with 42% in total population and 28% of the active population, contributes with 6% to GDP and a third of gross value added (GVA). Romania, although it has twice as much arable land per capita than the European average is below the average performance parameters of the EU member states, determined by the poor endowment, low yields and productivity and production is subject to weather hazard, that perpetuate a subsistence agriculture. The road of products from farms to the consumer's table, "from fork to fork", particularly of fresh products, vegetables, fruits, etc., is used by speculators and is in a permanent unfair competition with imported products.

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The agricultural producer faces major problems regarding the upstream input prices and the prices of their products, expressed through "price scissors" their lack of financial resources, restrictive procedures and high cost of credits, but also some disadvantages created by laws that did not take into account the changes occurring in the ownership structure and conditions of ongoing economic processes in agriculture.

However the measures taken for improving the agricultural production, both before and after joining the EU, there were no major changes in the farm structure, maintaining polarization in very small and small "households", and a limited number of large holdings. In 2010, 3.859 thousands of agricultural "holdings" were inventoried with a used area (UAA) of 13.3 million hectares, with an average of 3.45 ha / farm. AFIR (Rural Investment Funding Agency) paid 6.43 billion euros (69.1%) until 31 December 2013, out of 9.3 billion Euro allocated by the PNDR 2007-2013. In 2010, 1,092,672 farms received direct support for 9,638,285 ha, but 87% of users were aged over 70 years and those aged over 60 years were working 2.3 mil. ha, of which 1.3 mil. ha under 5 ha. Of the 484,414 applications to AFIR, 95,992 investment projects received grants amounting to 7.1 billion Euro. 46830 PFA were established with an average funding of 7,500 euros (351,225 thousand Euro) for a period of 5 years and producer groups, particularly in the vegetable sector and agricultural cooperatives, the process being ongoing. A report published by the European Commission shows that a Romanian "farmer" remains with about 1805 Euro / year of the grant received, compared to an average of about 10,000 Euros / year for the EU, 6259 Euro in Bulgaria and 14157 Euro in Hungary. A Romanian farmer, by paying taxes and fees, returns to the budget 21% of the subsidy received compared to 50% in Sweden, 43% in Germany and 7% in Bulgaria.

In addition to direct taxes, seemingly small, the individual producer longer bear the VAT rate of 24% corresponding to inputs of about 140 Euro / ha. In Romania a large crop farm receives 8400 Euro / year, a wine farm 2680 Euro / year, a dairy farm 1060 Euro / year compared to an average of 132,810 Euro / farm in Slovakia, 81130 Euro / farm in the Czech Republic. In 2014 the amount requested by the 1.05 million farmers was 692 million Euros for an area of 9.6 million hectares. For the agricultural year 2014/2015 SAPS has 1367527 thousand Euros for an area of 8.7 million hectares, respectively 156.89 Euro / ha with a payment of 170 Euro / ha for 1-5 ha and 210 Euro for 5.1 -30 ha / farm. According to PNDR 2014-2020, agriculture will receive 9.3 billion Euros, of which 8 billion Euros (85.6%) from FEADR, comparable with the period 2007-2013 and with a funding of 85 (95) per cent of a project value. Since the payments from PNDR 2014-2020, will pay special attention to the *active farmer*. Direct payments on area will increase to 170 Euro / ha in 2016, to 190 Euro / ha in 2019, differentiated according to the farm area.

2). The impact of introducing VAT

2.1 Legal regulation

The value added tax (VAT short) is an indirect tax beard by the final consumer for the good / services used. VAT is a tax due to the state budget, cascading charged by each operator to making a product or providing a service falling within the taxation with the right of deductibility of VAT on inputs purchased and used in the economic activity. VAT is regulated at European level by the European Union Council Directive 2006/112 and in Romania by the Fiscal Code approved by Law 573/2003 with additions and amendments. Taxable transactions are those that meet the conditions provided by art. 126 paragraphs (1), the VAT rates set out in Article 140 and exemptions in Articles 141, 143, 144 or 1441 of the Law no. 573/2003 regarding the Fiscal Code. Deliveries outside Romania are not subject to VAT, even if the taxpayer is in Romania.

Applying VAT is **mandatory** for production delivered and services performed by operators registered as VAT payers, **optional** for those with a turnover, from 1 January 2013, of up to 220,000 lei, VAT chargeable on encashment for operators with a turnover of up to 2200000 lei. **Individual producers**, on their own, **are exempted** from VAT, and for a range of goods, including production of cereals and technical crops, the reverse charge is applied.

2.2 VAT in Romania versus EU: VAT is the main source of income in the consolidated budget of the EU member countries. The VAT system introduced in Romania from 1 July 1993 has the VAT rate of 24%, which ranks third in the EU, after Hungary (27%) and Denmark (25%). Next Finland 22%, a group of three countries have 21% and 7 countries with 20%. Cyprus, Luxembourg has the lowest rates with 15% and Greece with 13%. Romania participates with 2.5% of the VAT collected to the EU budget, against 0.5% contribution of Germany.

2.3 The collection level: Romania collects for the state budget, according to the studies of European Commission for Taxation (CEF) only 56% of VAT set theoretically, compared to the European average of 83%. In the Netherlands and Finland the collection rate is 95%. In 2013 the gross encashment for the state budget of Romania were 67 billion Lei, of which 16.4 billion Lei were repaid (24.48%). With those 50.6 billion lei net, VAT is the second source to the formation of the consolidated budget revenues. Note that Romania participates with 2.5% (about 1.2 billion Lei) of the VAT collected to the EU budget, compared to 0.5% Germany's contribution to the establishment of funding resources to countries with a high rate of "sovereign debt". (Greece)

2.4 The collection gap, calculated as the difference between theoretical and earned income, during 2011-2012, established by the studies of CEF is **44%**, which confirms our calculations presented at the Symposium of ICEADR Bucharest from 11 to 13 November 2013.

In 2012, the losses from VAT collection deficit, estimated by the European Commission for Taxation are 177 billion Euro and represent 16% of the expected revenues of the 26 Member States, compared with 190 billion Euro (1.5% of GDP of 12.669 billion Euro) for the period 2000-2011. The deficit decreased in 11 states while 15 states have increased it.

Romania is nominated with a loss of 8.970 billion Euro in 2011 and 8841 billion Euro in 2012 compared to 10.3 billion Euro in the period 2000- 2011, representing 7.86% of the GDP of 131.1 billion Euro achieved.

A high percentage in tax evasion, claimed by farmers and some employers in Romania, holds the trade in agricultural products as raw materials (cereals, live animals), fresh products (vegetables - fruits) and semi products and preparations (flour and bakery products, meat and meat products) and others.

The European Commissioner for Taxation, Algirdas Semeta declared: "the states cannot afford to lose the revenue of this magnitude. Commission focuses on fundamental reform of the tax system, to make it more effective and harder to fraud", that supports the topics discussed: **THE VALUE ADDED TAX. CONSIDERATIONS ON THE IMPACT OF PROCEDURES APPLIED TO AGRICULTURAL PRODUCERS (REVERSE CHARGE, QUOTA REDUCING AND THE EXEMPTION FROM VAT).**

The analysis is justified by the intention of MADR, postponed several times, of application of reverse charge for fruits and vegetables and reducing VAT quota at 9% following the model used for the bread chain. In turn, the meat patronage requires for a reduction of VAT at meat and meat products to 5%. Both the intentions and the requests are motivated by the reducing of tax fraud and improving the functioning of the food products market by eliminating monopolistic practices

2.5 The causes of gap between theoretical income and the income collected by the state is determined, in our opinion, in addition to tax evasion, by:

a) **the procedures** and rules established for determining the payment amounts, (as difference between VAT collected and deductible VAT) exempted, delayed or returned, if in case, and the date set for the payment of VAT payable to the state budget, including by payment of VAT at encashment for the economic operators with a turnover of less than 2250000 lei;

b) **the production cycle,** time required to achieve production, determined by the date of supply and consumption of production factors, date of acquisition, storage, delivery and cashing the value of production, respectively the date of payment of VAT on inputs (deductible) and the date of tax encashment (collected) related to the production delivered and the date set for the payment of tax (due) to the state budget.

2.6 Tax evasion is manifested by "stealing" food products from tax obligations and fraud by encashment, failure to record the amounts due to the state and use for personal purposes plus

VAT management procedures and lack of capacity and preparation of fiscal authorities to exercise the control of economic operators, the influence peddling and corruption.

II. MATERIAL AND METHOD

The research method used is the quantitative and qualitative comparative analysis, by studying the documents of the Common Agricultural Policy (CAP), the rules and procedures for the management of VAT, EU Directive 2006/112 and law no. 573/2003-Fiscal Code. The data used are of the European Commission for Taxation (CEF) and national, INS press, MFP, CFR, MADR and BNR regarding the encashment and refunds of VAT to and from the state budget, price trends and agricultural production evolution, the use of European and national funds, media and specialty studies.

The analysis covers the VAT system applied to agriculture by ownership, organization and operation, and the need to introduce alternative measures for increasing efficiency and enhancing farm through a better use of the own funds borrowed and allocated through PNDR, reducing tax evasion, expressed through the gap between theoretical income and VAT collected, of 44%, set by the EU financial Commission, well above the EU average of 16%.

The study does not aim to comprehensively address all aspects, focusing on the two dimensions of the adjustment process in agriculture:

a) horizontally, to find and mitigate the effects of the application of VAT management procedures by ownership, organization and operation of agricultural land and increase the performance of agricultural production and agricultural holdings;

b) vertical, natural market integration of small and medium-sized farms by association in the implementation, collection and valorisation of agricultural products.

To assess the impact on the introduction of exemption from VAT, of the reverse charge and reducing VAT rate for some agricultural operations from the agricultural sector of producing cereals and industrial crops, were considered and compared the effects of the two methodologies accepted by EU procedures for managing VAT, in several variants.

The first working hypothesis: determining VAT in accordance with the actual methodology for applying VAT, by adding quota to the price of delivery, on the chain of producer - processor - retailer - consumer and establishing VAT payable to the state budget and if the reverse charge and exemption from payment.

The second working hypothesis: VAT deduction from the price paid to individual producers (associates) by the users of agricultural production, respectively calculating the VAT rate of 19.355% and 8.257% of the price paid, the quota of 24%, respectively 9% at the invoice payment (the use of the second method of determination and settlement of VAT).

It keeps the principle of neutrality of VAT.

III. RESULTS AND DISCUSSIONS

To prevent tax evasion manifested and claimed in agricultural production, increasing inflation and prices, the state has adopted, in time, a number of laws which favour consolidation of forms of organization and operation of farms, input supply and valorisation of production by individual producers through direct support of formation of producer groups and the establishment of agricultural cooperatives on market principles*. Through PNDR 2007-2013 were implemented measures 141 "Support for semi-subsistence farms" and 142 "Setting up production groups designed to speed up the market integration of the small farms". The materialization of these programs has been hindered by the trading practices and by the low administrative capacity of the beneficiaries. Although there have been spent significant amounts for their training and guidebooks, the adoption of legislation in the field of taxation had disadvantaged and disadvantages the activity from the sectors of agricultural production.

Since the introduction of VAT, as a modern form of taxation consumption, although the base and the tax rate and management procedures had several changes, they have not solved the increasing budget revenues and reduce tax evasion. It acted inhibitor and maintained discrimination between agricultural production sectors and between the encashment (cash) of individual agricultural producer (associate) for the delivered production, compared with that legal organized VAT payer, creating more parallel markets:

- *peasant market* – on the relation individual producer relationship (associate) - consumer;
- *regulated market* – on the relation farmers legal organized (companies, agricultural associations) - wholesalers - processors - retailers - consumers;
- *speculative market* – on the relation individual producers - wholesalers (traders) not taxed (speculators) - consumer.

3.1). The analysis of the impact of introducing quotas and VAT management procedures on financial resources (own and borrowed) of farmers, on the development and agricultural production efficiency

In agriculture there are used multiple VAT rates and VAT management procedures as follows:

> **The standard rate of 24%**, permissible to legal regime farms organized as companies and agricultural associations, cooperatives, PFA for most agricultural products, according to art. 140 of the Tax Code, except wheat;

> **The rate of 9%** for flour, bread and bakery products, CAEN code no. 1061 and 1071, introduced by GEO no. 16/2013, approved by Law no.371 / 2013 valid until September 1st 2014, extended period;

> **Exemption from VAT payment** of the individual producers legal unorganized (art. 141 of the Tax Code).

> **The reverse charge** allowed to farms legal organized for cereal and technical crops, introduced by GEO no. 49/2011, valid until 31 May 2014, extended period;

The procedures adopted for the application of VAT in agriculture does not take into account the changes occurring in the ownership and operation of agricultural land, the main means of production – the capital and conditions of realization of agricultural production.

Relevant for farmers are: introducing the reverse charge in the production of cereals and industrial crops (wheat, rye, barley, corn, sunflower seeds and sugar beet), reducing the tax collected at 9% on the bread chain and maintain exemption from payment of the individual producer legal unorganized, obligation to open a bank account for receiving subsidies, registration of grant recipients for PNDR projects, at least as PFA and management the accounting, according to GEO no. 44/2008, maintaining the gap between the agricultural year and the payment of subsidies. So far, only 46 830 farmers are organized in PFA, beneficiating of 7500 Euro for a period of 5 years for a total of 351,225,000 Euros.

Since 2015, comes into force the rule of *active farmer*, who will receive higher subsidies of 5,000 €, unless it is organized as PFA. This conditioning will exclude a large proportion of farmers from accessing European funds, increases bureaucracy and administration costs for the individual farmer. To organize a farm in the crop production sector, with legal regime, with a turnover of 220,000 lei (equivalent to 220 tons of wheat at a price of 1,000 lei / t), a farmer must hold or to lease an area of 50 ha and achieve a minimum average production of 4400 kg / ha.

The measures, although they were taken to improve the economic environment, in fact, acted and act as limiting factors and inhibitors in the organization of agricultural production, created fiscal inequity, were made to the detriment of farmer, regardless of its organization and functioning form.

The comparative summary of the VAT impact, according to the legal form of organization and operation, of the quota level and regularization procedures is given in Table 1.

Table 1

| SPECIFICATION | 1) Companies, Agricultural societies (%) | | | 2) INDIVIDUAL PRODUCER (%) | | | |
|----------------------------------|---|----------|----------|----------------------------|-----|-------|--------|
| | a) | b) | c) | V1 | V2 | V3 | V4 |
| a) Inputus with VAT | 56 | 56 | 56 | 56 | 45 | 56 | 56 |
| b) TVA deductible (a x 24%) | (13,44) | (13,44) | (13,44) | 13,44 | 11 | 13,44 | 13,44 |
| c) Other inputs (workforce etc.) | 29 | 29 | 29 | 29 | 29 | 15,56 | 29 |
| d) Total costs (a+b+c) | 85 | 85 | 85 | 98,44 | 85 | 85 | 113,44 |
| e) Profit /loss (-) | 15 | 15 | 15 | 1,56 | 15 | 15 | 15 |
| f) Producer's price | 100 | 100 | 100 | 100 | 100 | 100 | 123,44 |
| g) VAT 24% / 9% | 24 | 24 | 9 | - | - | - | - |
| h) Price invoiced /received | 124 | 100 | 100 | 100 | 100 | 100 | 123,44 |
| i) VAT chargeable (g-b) | 10,56 | - | - | - | - | - | - |
| j) Refunds from budget | | (-13,44) | (-13,44) | 0 | 0 | 0 | 0 |
| g) Gap | 44 | 0 | 0 | 0 | 0 | 0 | 0 |

Note: own calculations

3.1.1). The analysis of VAT rates and procedures applicable to agricultural commercial companies (associations) Farm

1 a) The standard tax of 24% is the main form of taxation of agricultural production realized by agricultural companies (associations) as a source of revenue for the state budget. Although act neutrally on the expenditures of farmers, the quota level influences and creates the necessary financial resources to purchase inputs needed for the agricultural production until collection and / or VAT adjustment in accordance with procedures. Farmers act as fiscal agents and contribute to the state budget, on average, with 10.56 per cent of the price of delivery. Contribution for budget differs from one farmer to another in relation to the structure of production, from an agricultural product to another, according to the share of inputs subject to VAT and the technology used, and the price for their production, that determines the profitability rate per product. For farmers with a turnover of less than 220,000 lei / year (65,000 Euro) the registration as a taxable person is optional. The rate level affects the purchasing power of the population and therefore valuing agricultural production. According to our calculations, **of the 24% VAT paid by the consumer, only 56%, respectively from 24 lei paid by the purchaser, only 13.44 lei reach, on the entire supply chain, to the state budget.** The gap between theoretical revenue and encashment at budget from the standard rate is 44%, confirmed by the study published by the European Commission for Taxation for the period 2011-2012.

1 b) The reverse charge was introduced by GEO no. 49/2011 as a **mechanism for the marketing of cereals and industrial crops** (wheat production, including wheat for bread with VAT rate of 9% (1.c), rye, barley, corn, soybean, sunflower and sugar beet) within the country to eliminate anticompetitive practices, reducing tax fraud in the agricultural sector. The provisions of the ordinance only benefit economic operators (suppliers and users) registered for VAT. The rules prohibit the economic operators that are subject to insolvency, bankruptcy, and if one of them is inactive, is being discharged or has removed the VAT code.

The agricultural producer, as a supplier, do not invoices the customer with VAT, being obliged to compensate VAT with other products and activities and / or to recover the negative differences set through the VAT expense account, from the state budget. The customer-processing industry records the acquisition tax in the VAT expense account as tax collected and tax deductible, named **self-liquidation of VAT and is recorded in the accounts** (account 4426 = 4427.) The

reverse charge changes the contribution of the economic operators on chain to the formation of the budget revenues (table no. 2).

a) The impact of introducing of reverse charge on chain (case study at bread)

| Specification | a) Standard taxation | | | | | No. | b) Reverse taxation | | | | |
|----------------------------------|----------------------|--------------|--------------|--------------|--------------|------------|---------------------|--------------|--------------|--------------|--------------|
| | produc | milling | bakery | trade | chain | | produc | milling | bakery | trade | chain |
| 1 Selling price/chain | 800 | 1600 | 2500 | 3200 | 3200 | 1. | 800 | 1600 | 2500 | 3200 | 3200 |
| 2. Cost. cumulated | 695* | 1390 | 2175 | 2780 | 2780 | 2. | 695 | 1390 | 2175 | 2780 | 2780 |
| Costs/ chain | 695 | 590 | 575 | 280 | 2140 | | 695 | 590 | 575 | 280 | 240 |
| Cost of raw materials/good | - | 800 | 1600 | 2500 | 640 | | - | 800 | 1600 | 2500 | 640 |
| 3. VAT collected | 192 | 384 | 600 | 768 | 768 | 3 | - | 384 | 600 | 768 | 768 |
| 4. VAT deductible | 122 | 264,2 | 454,3 | 634,3 | 298,8 | 4 | (122) | 72,2 | 454,3 | 634,3 | 189,1 |
| a) raw materials/good | - | 192 | 384 | 600 | | | - | (192) | 384 | 600 | |
| b) cost/chain | 122 | 72,2 | 70,3 | 34,3 | 176,8 | | 122 | 72,2 | 70,3 | 34,3 | 176,8 |
| 5. VAT comp./rest | | - | | | | 5 | 122 | - | | | 122 |
| 6. VAT chargeable | 70 | 119,8 | 145,7 | 133,7 | 469,2 | 6 | - | 311,8 | 145,7 | 133,7 | 591,2 |
| 6.1 Net VAT (row6-5) | - | - | - | - | 469,2 | 6.1 | | | | | 469,2 |
| 7 colect degree(row6.1:3) | 36,4 | 31,2 | 24,3 | 17,4 | 61 | 7 | 0 | 81,2 | 24,3 | 17,4 | 61 |

Note:*) Without subsidies of 154,1 lei/to; own calculations.

At a price of 3968 lei / tone of bread (11.9 lei / loaf of 300 g), the budget receives the same VAT chargeable of 469.2 lei / tone of bread and the collection rate is 61% of the VAT paid by the buyer of 768 lei / tone. By the standard charging, the farmer pays VAT payable in the amount of 70 lei, in reverse, by applying the reverse charge is obliged to compensate with the VAT collected from other activities or to recover from the state budget the amount of 122 lei / tone related to the inputs consumed, based on the negative statement of VAT if the amounts exceed the amount of 5000 lei, based on request within 3 months. In this way, the farmer immobilizes its financial resources, so precarious, while the milling industry (bakery), although it increases the budget payments from 119.8 to 311.8 lei lei / t, it is due to not paying VAT to the agricultural producer, representing a resource drawn in the amount of 192 lei / to and makes a saving of financial resources and / or borrowed of 240 lei (90 lei for wheat for bread) for 1,000 lei cereals and technical crops purchased.

The reverse charge does not keep account of the cycle of obtaining agricultural production.

b) The consumption of inputs, obtaining and valorization of agricultural production vs VAT (case study-wheat crop)

Unlike other economic operators, from upstream and downstream, which are able to achieve and delivery daily production or on short periods, usually the crop production is obtained in 7 -11 months and is subject to natural factors with implications in using and efficiency of financial resources.

The evaluation of financial effort for purchasing inputs, payment and recovery of VAT in the process of creation, maintenance and harvesting of a hectare of wheat, based on technologies from ICEADR Bucharest, is shown in table no. 3.

Table 3

| MONTH | Previous year | | | | Current year | | | | | | | | Total |
|---------------------|---------------|-------------|----|-----|--------------|------------|-----|------------|-------------|----|-------------|-----------|-------------|
| | IX | X | XI | XII | I | II | III | IV | V | VI | VII | VIII | |
| Costs /ha –lei | 1167 | 1139 | - | - | - | 502 | - | 133 | 1078 | - | 1472 | 80 | 5560 |
| VAT/ha-lei | 128 | 125 | - | - | - | 55 | - | 15 | 116 | - | 162 | 9 | 610 |
| Total lei/ha | 1295 | 1264 | | | | 557 | | 148 | 1194 | | 1644 | 89 | 6170 |
| Subsidies lei/ha | - | 386 | | | | 385 | | | | | | | 771 |
| Repart. on month % | 21 | 21,5 | | | | 9 | | 2,4 | 19,2 | | 26,4 | 1,5 | 100 |

Note: data source, calculation of technologies from ICEADR and own calculations

The expenditures required to obtain the wheat production differs between different periods of the year as follows: 41.5% at the establishing of crop in September-October, 30.6% for maintenance in February, April and May and 27.9% for harvesting the wheat crop majority in July. In addition of these costs is a financial effort of about 610 lei / ha for VAT with the possibility of being recovered after 10-12 months, at the production delivery. The level of expenses with inputs and VAT is influenced by the quantity, quality and price level, mechanical works, realized directed and / or service, etc. Although in practice there are agreements with suppliers of inputs regarding the date of payment of invoices, these rebounds on the price per tone of product. The subsidy received of 771 lei / ha is promised in two installments (October and February) but EU rules grant the first installment in December (?!), so after the crop was already established and money spent. In addition, the subsidy is eroded with 19.355%, the equivalent of VAT rate of 24%, respectively with 149.2 lei / ha. Compensation and / or recovery of VAT from the budget, possible for farmers with a turnover of over 220,000 lei (65,000 euros) creates the immobilization of the own financial resources, borrowed or raised and subsidies from one month to 3 month, the period limit established for the reimbursement from the budget and which often is exceeded with direct effects on the financial resources, especially through the failure to comply technology, overcoming the optimal time etc. and loss of production.

The reverse charge, although does not affect the net income of the state budget, keeps the fiscal inequity and discrimination both between unorganized and organized farmers and between them and the milling and baking industry. The first cannot regulate and recover VAT and those legal organized in agricultural holdings grow their immobilizations of financial resources and costs for manage VAT. It also increases the costs with refunds from the budget, multiplies bureaucracy, promotes abuse and corruption of public officials.

1.c) The reduced tax of 9% was introduced by GEO no. 16/2013 from 1 September 2013 to reduce evasion on the bread chain for trade in wheat, flour, bread and bakery products. The quota of 9% applies only for VAT collected on chain, except farmer covered by the reverse charge. Thus, this practice introduces two VAT quota, of 24% for the purchase of goods and services required for the chain operators, including farmers, and 9% for the purchase of wheat, flour and bread, as appropriate.

a) The impact of reducing VAT on the bread chain

Government, through MFP, has presented "Ex-post evaluation of the macroeconomic effects of reducing VAT on flour (CAEN code-1061), bread and bakery specialties (CAEN code-1071) in September 2014, after a year, as a success, summarized in: framing in the negative effect on the income of general consolidated budget of 281.4 mil. lei, compared to 281.7 mil. lei, reducing tax evasion with 300 million lei (without supporting calculations), and a high degree of VAT collection, of 73.6%. The figures show an increase in production of bread with 888,070 tons and 15.8% at flour. The price of bread has decreased by 11.43%, settling at 3.49 lei / kg flour with 10.09% in July 2014 compared to July 2013. The consumption of bread and bakery products

declined in the first quarter of 2014 at 8.25 kg / person, of which 0.9 kg self-consumption and from peasant market and at flour at 0.8 kg / person, of which 0.25 kg from outside trade.

The most significant results were recorded in the milling and baking industry, by increasing the number of companies (80), the average number of employees (233 people) compared to the period before the outbreak of the crisis, profit growth at 67.5 mil. lei in the milling industry and 181.8 mil. lei in the baking industry. Although the positive effects highlighted, the problem is far from solved. Therefore, we present the estimated effects for the state budget for 2015 that will continue to have effects, based on the results assumed by the Government. (Table no. 4)

| specification | a) Standard VAT quota of 24 % | | | | | | b) VAT quota – collected reduced at 9 % | | | | | |
|-----------------------------------|-------------------------------|--------------|--------------|--------------|--------------|------|---|-------------|-------------|-------------|---------------|------|
| | Prod | millin | baker | trad | chai | Cons | Prod | millin | baker | trad | chai | Cons |
| 1 Selling price/chain | 800 | 1600 | 2500 | 3200 | 3200 | 3968 | 800 | 1600 | 2500 | 3200 | 3200 | 3488 |
| 2. Cost. cumulated | 695* | 1390 | 2175 | 2780 | 2780 | 3968 | 695 | 1390 | 2175 | 2780 | 2780 | 3488 |
| Costs/ chain | 695 | 590 | 575 | 280 | 2240 | | 695 | 590 | 575 | 280 | 2240 | |
| Cost of raw materials/good | - | 800 | 1600 | 2500 | 540 | | - | 800 | 1600 | 2500 | 540 | |
| 3.VAT collected | - | 384 | 600 | 768 | 768 | | - | 144 | 225 | 288 | 288 | |
| 4.VAT deductible | (122) | 72,2 | 454,3 | 634,3 | 189,1 | | (122) | 72,2 | 214,3 | 259,3 | 189,1 | |
| a)raw materials/good | - | (192) | 384 | 600 | | | - | (72) | 144 | 225 | | |
| b)cost/chain | 122 | 72,2 | 70,3 | 34,3 | 176,8 | | 122 | 72,2 | 70,3 | 34,3 | 176,8 | |
| 5. VAT comp/.rest | 122 | - | | | 122 | | 122 | - | | | 122 | |
| 6.VAT chargeable | - | 311,8 | 145,7 | 133,7 | 591,2 | | - | 71,8 | 10,7 | 28,7 | 111,2 | |
| 6.1 Net VAT (row6-5) | - | | | | 469,2 | | | | | | -10,8 | |
| 7 collect degree(row6.1:3) | 0 | 81,2 | 24,3 | 17,4 | 61 | | 0 | 41,3 | 4,2 | 9,97 | -103,7 | |

Note *) without 154,2 lei/to subsidies. Calculations bases on the report of 1 / 2 / 4 for price of wheat / flour / bread and 1 kg wheat =1 kg bread.

The price of 3.49 lei / kg (about 1.05 lei / 300 g loaf) corresponds to a price of 3968 lei / kg (1.19 euro / pcs.) practiced before applying the reduced rate of 9%, Government confirmed the release dates. For consumption taxed of 36 kg / head (800 million tones / year), **the budget incomes decrease**, per balance, with 480 lei / ton of bread, respectively 375.3 mil. lei / year. Compared to a theoretical net **income** of budget of 365.5 million Lei (800,000 to x 469.2 lei/ tone bread), where the quota is of 24%, although it enchases 98.6 million lei (888.07 million to x 111, 2 lei / t), by the compensation / refunds established by farmers through the VAT return, the income earned theoretically are reduced by 108.3 mil. lei (888,070 to x 122 lei/ t). Thus, **the VAT contribution at the state budget becomes negative** in the amount of 20.5 million lei. The deficit will increase with the increase of bread consumption taxed. If doubling consumption, the estimated deficit reaches 772 million Lei / year and compensations / refunds from the state budget, if necessary, increase from 97 mil. lei (800 million to x 122 lei/ t) to 195.2 million lei (1600000 thousand tones x 122 lei / t) in current prices in 2014.

The deficit is multiplied by the household consumption of flour for about 61,360 tons / year (85200 tones wheat) with approximately 10.4 mil. lei / year by compensations and / or refunds and about 18.4 mil. lei from reducing VAT quota. Reducing the VAT rate to 9% keeps the effects of procedures introduced through the reverse charge (compensations and budget refunds of negative VAT, reducing the immobilizations of the own and borrowed financial resources of the milling and

baking industry and trade, maintains the immobilizations of financial resources of farmers). **Although the price** of bread and flour is reduced by 11.73% in theory, the revenues are reduced and the compensations and / or refunds from the state budget increase, bureaucracy multiplies, the abuse and corruption among public officials promote.

b) Restitutions / compensations can be eliminated by increasing the VAT rate on chain, from 9% to 15%, in equivalent rate of 13% deducted from the price paid to farmer with VAT included, as we proposed. Thus, is recognized VAT on inputs paid by the farmer. The substantiation of measure is shown in table no. 6. Even if the measure is unfavorable to the consumer, this is for moment, as the necessary budgetary resources will require the introduction and / or increase taxes, fees or contributions, as has happened with some luxury goods, fuel excise "pillar tax "etc.

Substantiation and the effects of recognition VAT deduction to users for products purchased from individual farmers (Case Study at wheat lei / t)

Table 6

| (lei/ to) | Actual situation | | Proposals |
|---|------------------|-------------------|-------------|
| | Com. Soc. | Individ. Produc./ | |
| 1. Inputs with VAT (materials, services etc.) | 355* | 355* | 355* |
| 2. VAT deductible of inputs | (122,) | 122, | 122, |
| 3. Other inputs (salaries, contributions, depreciation etc.) | 340 | 340 | 340 |
| 4. Total costs | 695 | 817 | 817 |
| 5. Price of selling | 800 | 800 | 920 |
| 6. Profit /loss | 105 | -17 | 103 |
| 7. VAT collected | - | - | - |
| 8. Amount invoiced/ received | 800 | 800 | 920 |
| 10. Deductible amount | | - | |
| a) – VAT deducted at the users of agric. prod. as raw material (row8 x 13%) | (72) | - | (119,6) |
| b) – income ceded of prod. (row 8 x 0,3 %) | - | - | 2,4** |
| 11. VAT refund from budget (row 7-10a) | 122 | - | - |
| 12. VAT for payment/ chargeable (row2-7) | - | - | - |
| 13. Cost of raw material at buyer /user | 800 | 800 | 800 |

Note: own calculations *) without subsidy of 154 lei/to;**) Only individual producers

Calculations show that the revenue per tone of wheat for farmer grow with 120 lei and compared to a loss of 17 lei / to is obtained a profit of 120 lei, respectively an additional income of 600 lei / ha at a yield of 5000 kg / ha . It is eliminated the compensation and / or payment to/from budget in the amount of 122 euro / tone, which at a taxed consumption of 888,070 tons / year totaling 108.3 million lei.

c) The correlation between reducing VAT, the price of bread and wheat price

Evolution of the price of bread related to the wheat price, that the decision makers have not taken into calculation of the effects of reducing the VAT rate from 24 to 9% on the chain producer-processor-merchant-consumer-budget is presented in table no. 5.

| INDICATORS | 31.VIII.2013 | 1.IX.- 31.XII.2013 | 1.1- 30.IX.2014 | Budget 2015 | proposals |
|-------------------------------|--------------|-----------------------|--------------------|-------------|-----------|
| Average price of wheat lei/to | 1000 | 900 | 800 | 800 | 800 |
| Euro/to | 222 | 209,3 | 186 | 186 | 186 |

| | | | | | |
|-------------------------------|-------|-------|-------|-------|-------|
| Price of bread lei/kg | 4,960 | 3,924 | 3,488 | 3,488 | 3,680 |
| Of which VAT lei/kg | 0,960 | 0,724 | 0,288 | 0,288 | 0,480 |
| Price of bread 300 g lei/loaf | 1,49 | 1,18 | 1,0 | 1,0 | 1,1 |

Note: own calculations ;*) limit price UE 1 Euro=4,3 lei

3. 1. 2) Exemption from VAT payment of individual producers and agricultural production efficiency

Individual producers, exempted from VAT, are obliged to bear on expenditures the VAT on inputs purchased for agricultural production with seeds, fertilizers and pesticides, fuels and lubricants, spare parts, feed, services, utilities (water - sewage, heating and electricity, etc., as appropriate) and to include on the cost of the finished product for fresh consumption or as raw material.

For blurring the influences on production efficiency, the individual farmer has the option of variants from table 1, as follows:

V1 Apply the same technology. By valorization of production to the economic operators legal organized (processing industry or wholesalers and / or retailers) they do not recognize the VAT rate, it creates unfair competition and individual farmer, although it may receive the same price, does not achieve the same profit to the same financial effort and is added the income tax, if applicable. For cereals and industrial crops by applying the reverse charge, although obtained the same price, there is no possibility to recover the negative VAT from the state budget.

To avoid losses, the individual producer has the possibility of the variants V2, V3, V4, as follows:

V2 - reduce costs with VAT inputs (seeds, fertilizer, pesticides, mechanical works, fuels, lubricants, spare parts, other materials, etc.). It is not guaranteed to obtain the same yields and gross profit / ha even has the same cost and obtain the same price. Those who pay income tax, although not calculate depreciation or some taxes, fees and contributions cannot recover VAT on their inputs consumed and may incur losses.

V3 - reduce other input costs (wages, taxes and fees, interest, etc.). No guarantees to achieve the same gross profit / ha and those who pay income tax, although not calculate depreciation and / or some taxes and contributions, they cannot recover VAT on inputs and may incur losses;

V4 - Sells on the open market at the costs level, with profit or loss.

To recover VAT related to inputs, the individual farmer is obliged to establish PFA or associate in legal forms (associations, cooperatives). This increases bureaucracy and the individual producer's expenses with records and financial reporting and increases the tax authorities' workload.

Value added tax has eroded and erodes the funds obtained, in any form of organization of farmers and program accessed from the EU budget and / or national level, where appropriate, due to his ineligible character.

The exemption from VAT distorts the agricultural production contribution to GDP and VAT loses its neutrality. It creates unfair competition between individual farmers and the legal organized. It grows the selling prices on the open market and reduces consumer's purchasing power.

IV. RECOMMENDATIONS FOR IMPROVING THE ECONOMIC ENVIRONMENT

According to the ownership and conditions for the economic processes in agriculture, to promote the transformation of the private property legal unorganized in holdings and / or in viable companies, we propose the following measures:

1. Determination of VAT, by deducting from the price paid with VAT included, a kind of reverse charge for agricultural products purchased and paid by the users of agricultural production to individual producers:

a) **granting the right to deduct VAT rate** of 19.3548% respectively 8.257% (equivalent share of 24%, and 9% for wheat) **from the price paid to individual producers** by the users of agricultural products organized legal based on the purchasing slip and self-billing as follows:

> **to the processing industry** of agro-zootechnical products for human consumption (except for the obtaining of alcohol from grains), represented by the milling and baking industry, meat and meat products, milk and milk products, oil and sugar etc.

> **livestock farms** (dairy cows, fattening cattle, pigs, sheep) and birds, for the forages cultivated (barley, corn, alfalfa, etc. and remaining products from the processing of agricultural products);

> **wholesale markets, acquisition and storage centers** of agricultural production (vegetables and fruits, grains and technical crops etc.).

b) **Strengthening the economic role of contracts in negotiating and circulation of agricultural products purchased from individual producers at prices with VAT included.** The right to deduct VAT and / or application of the current reverse charging until elimination, conditioned by the payment of products purchased to farmers. **Generalization of the "procurement slip"** as document with special regime for self-invoicing, VAT regulation and monitoring of farmers' income.

c) **introducing VAT rate of 15%**, deducted from the price paid in the quota of 13.04%, instead of the current rate of 9% added on the chain of bread production.

By the proposed measure is **recognized VAT** on inputs (fertilizers, seeds, fuels and lubricants, services, heat and electricity, etc.) acquired by the legal unorganized individual producers, **increase their income** by 15% **without affecting the cost of raw materials** at the users of agricultural production, is eliminated discrimination between them and those legal organized in agricultural companies (associations).

It is reduced bureaucracy for regulating the amount of VAT of 122 lei / tone, which at the consumption of bread taxed of only 888,070 tons / year totaling 108.3 million lei with that the state budget revenues increase.

d) **The establishment of a temporary fund to support producer groups** by ceding a quota of 0.3% of the selling price of the individual producers as 'assigned revenue' (as is the practice of the EU in some cases - eg. the restructuring of the sugar industry);

3) The introduction and generalization of VAT rates differentiated on chain: 9% or 5% for purchases of goods and services by operators and 19% for consumers in accordance with the proposal made at the symposium of ICEADR from 11 to 13 November. 2013 and sent to decision makers (MADR, MFP, some patronages, including ROMPAN, unions and agricultural companies).

4) The penalties calculation for non-payment of VAT to be made in relation to the production cycle of obtaining agricultural production (eg. production of autumn cereals - wheat, barley - after 9 months from the establishing crop, etc.)

5) Supporting the development of domestic industry for the production of machinery and equipment necessary for agricultural production and food industry by importing competitive technologies, where we still experience and skilled labor available.

6) Introduction of VAT payable in two installments in the form of an advance of 60% of the amount due in the previous month, to be paid until the 10 of the current month and the regularization, based on the VAT return, until the 25th of the month, as currently, in conjunction with the granting a bonus to the economic operators that fully pay the VAT chargeable until 10 of the current month for the previous month. Thus, it is reduced the effort of economic operators and streamlines the receipts and payments from the state budget.

7) **Including banking financial services (commissions and fees) in the VAT circuit**, excluding the interest rate, by canceling the exemption provided by art. 141 of the Tax Code. The revenue to the state budget grows by increasing tax base.

8) **The adoption**, in regime of emergency, **of legislation by Parliament**, to amend and complete the Fiscal Code with recommendations, adoption of the law of economic contracts specific to agricultural production and completion of accounting regulations approved by Order no. 3055/2009 under the law no.82 / 1991.

V. CONCLUSIONS

"Whatever the budgetary needs of the moment and whatever tax reforms designed to satisfy, we must not forget that public money should be used to its benefit and only in its benefit, and any expenditure should be made righteous." 1925- prof. M. Manoilescu (9 December. 1891-1830 December 1950).

An orderly adjustment of the fiscal and contributory system can lead to the adoption of those measures to stimulate domestic consumption, increase domestic production and velocity of capital, reducing the budget deficit, uncontrolled growth of prices, inflation and unemployment, in a word imbalances of economic life.

Therefore, the gaps appeared in the evolution of society, due to the current crisis, must be managed with greater accountability and transparency, and economic policies adopted cannot be left to chance, to market forces as a regulator.

Fees, taxes and contributions are not only simple budgetary resources, but also effective tools in guiding farmers through the level and mechanisms of taxation which the state institutions can promote in stabilization of agricultural products and agro industrial markets, as part of a functional market economy.

The reforms in the Romanian economy must combine and "burn" but also to avoid some mistakes in the steps already done by the developed countries. These goals cannot be achieved without analysis scientifically substantiated, approved by clear and non-discriminatory laws and procedures adapted to the realities of Romanian agriculture, through the political will by the Romanian Parliament and implemented by the Government.

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