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# THE IMPACT OF NEW TAX POLICIES IN SEMI-SUBSISTENCE AGRICULTURE IN THE PERIOD 2013-2017

TOMA CAMELIA<sup>1</sup>, GAVRILESCU CAMELIA<sup>2</sup>

**Summary:** *The paper aimed to estimate the effects of the 2013 new fiscal policy, by broadening the taxation basis of agricultural incomes on almost all types of crops and animal species as well as on small farmers represented by unauthorized and authorized natural persons. Public statistical data of the Ministry of Finance, NAFA (National Agency for Fiscal Administration) and National Institute for Statistics were used, taking into account the specific taxation methodologies and the current legislation, as well as the results of academic research studies and agrarian economy research. The analysis showed that the agricultural income norms, calculated as regional averages and which are flat baseamounts for tax and health insurance contribution calculation, have a decreasing trend due both to the increasing expenditures for agricultural inputs and the decreasing prices of agricultural products. The collection of taxes and health-related contributions based on agricultural income norms has decreased, but one can notice that tax revenues collected for the State Budget from the taxation of rental income increased almost three times during the analyzed period. The increased appetite for agricultural land lease can be attributed on one hand to a lower tax burden than in case of taxing farm incomes of individual exploitation, but on the another hand to the migration phenomenon of young rural labor to Western Europe, while at home only the aging workforce remained, which is forced by the circumstances to lease the arable land.*

**Key words:** *income norms, rental incomes, tax, health insurance contribution, state budget*

**JEL Classification:** *H 20, H 25, H 30, H 31, Q 14*

## INTRODUCTION

In our country, the introduction of single-entry accounting system was also experimented for the independent activities from farming, for a more real determination of the taxation basis, supported by a more simplified accountancy system and maybe with the aim to provide an economic-financial and managerial education to small agricultural entrepreneurs.

In the last 20 years, a low taxation level was noticed, rather cumbersome and difficult to control, due to the great number of small entrepreneurs in the rural area, as well as to the low number of taxable activities, only in horticulture, the rest of small individual farmers' activities not being prone to taxation.

In the rural area from Romania, an important part of rural households incomes are obtained from farming. Out of total incomes, 42.2% is represented by the self-consumption of agricultural products and 56.3% cash incomes from social benefits, such as salaries, pensions, social aids, child benefits, etc., and incomes from the sale of obtained agricultural products. Yet all these incomes account for only 24.7% of total cash incomes of rural households (National Institute of Statistics, 2012).

A study by Dachim and Mosora (2012) showed that agricultural incomes are lower in the regions where the semi-subsistence farms prevail.

Furthermore, 65.5% of farm businesses are organized by unauthorized individual farmers without legal status (without a proper accountancy system) and 34.5% as companies (National Institute of Statistics from Romania, 2012).

## MATERIAL AND METHOD

Starting with February 1, 2013, the legislation into effect brought important changes with regard to the taxation and accountancy system of tax-payers, as natural persons, physical authorized

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persons, individual enterprises and family enterprises operating in agriculture (Law 168/2013 and Government's Ordinance 8/2013).

The new tax regulations aimed at broadening the taxation basis in almost all agricultural activities, including those activities that before February 1, 2013 were not subject to taxes, at the simplifying and streamlining the collection of taxes and social contributions, simplifying the financial-fiscal control system of the public finance administration authorities and a better substantiation of the establishment of agricultural income norms at county level.

The taxation basis was generalized by introducing new "agricultural income norms", as flat-rate reference value for almost all categories of farmers without legal status, that is for individual farmers and for authorized farmers who, before February 1, 2013, were taxed in a real system on the basis of single-entry accountancy.

The 16% tax and the 5.5% health insurance contribution are calculated on taxable agricultural income determined on the basis of new agricultural norms, above certain non-taxable physical limits (Law 571/2003 *on the Tax Code* for the years 2007- 2015).

The natural persons, who transfer agricultural goods in use through a lease contract, were obliged to pay, until 2016 inclusively, tax by applying a flat rate of 16% and health insurance contribution of 5.5% on 75% of the rent value and on 60% respectively, starting with the year 2017, by "deduction at source" by the tenant farmer (Law 227/2015 *on the New Tax Code*, with subsequent modifications).

The 25% and 40% difference is considered a lump-sum expense deductible from the gross rent value due by the lessee to the less or, as natural person.

For the fiscal year 2013 (1 February – 31 December) agricultural income norms were established, as national average values, and starting with January 1, 2014, the value of these agricultural income norms were established for each county in part, according to a transparent methodology that takes into consideration the specificity and agricultural and market potential of each county, through yearly negotiations with the representative of small local farmers inclusively.

The upper limits (ceilings) of cultivated areas/ animal heads/bee families owned/operated, up to which no tax on agricultural income is paid, as well as the lower limits of cultivated areas/ animal heads/bee families owned/operated, from which tax on agricultural income norms is paid.

The methodology for establishing the income norms used for the taxation of incomes from agricultural activities<sup>3</sup>proposes to calculate the tax reference income norms at the level of each county, through the difference between the average value of yield per hectare, on three consecutive years, previous to fiscal year and the expenditures made throughout the agricultural year to obtain the production.

In the livestock production sector, the methodology is somehow similar, per head of breeding female (cows, buffalo cows, ewes, goats, bee families, poultry). (Government's Ordinance 330/2014).

The income norm for each type of crop or breeding female represents the calculation basis of the flat rate tax of 16% and of the health insurance contributions of 5.5%.

## RESULTS AND DISCUSSIONS

For the period 2013-2017, on the basis of available statistical data, the evolution of the average regional size of income norms and the average regional size of elements (aggregate 3-year averages prior to the fiscal year) were calculated, on the basis of which the income norms were calculated (average yield per hectare, average selling price/kg, value of production per hectare, production costs per hectare) in the field crops. ([www.anaf.ro](http://www.anaf.ro); [www.insee.ro](http://www.insee.ro) )

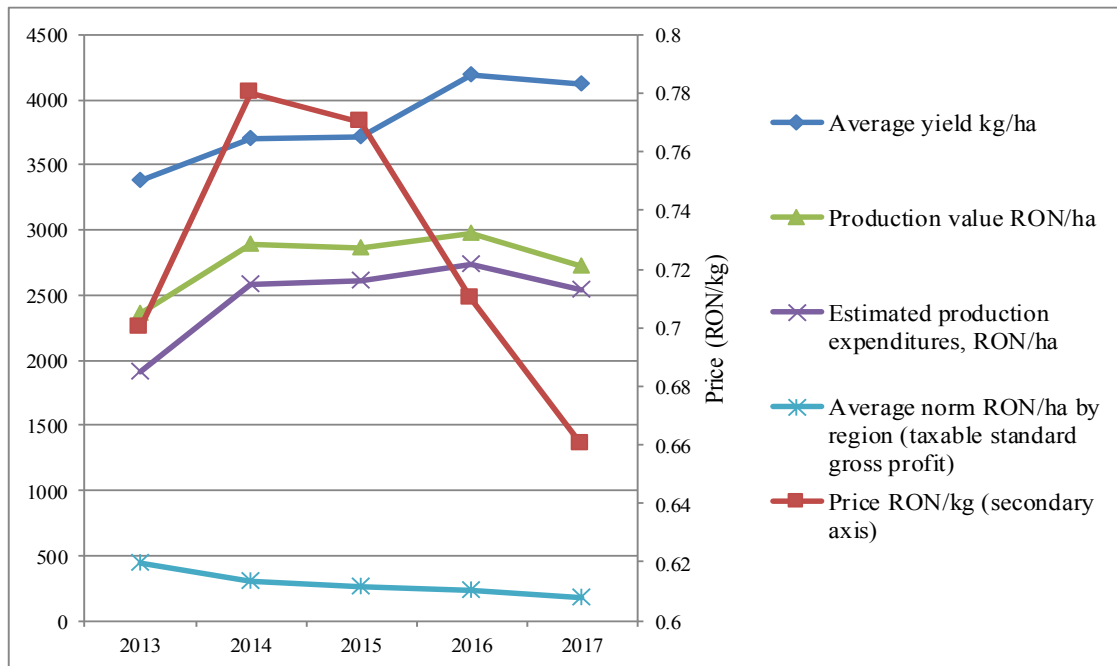
Out of these, the cereals from Sud region were selected as example.

The processed data reveal a decreasing evolution of the average size of income norms per hectare of cereals in the region Sud, mainly determined by the decreasing evolution of average

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<sup>3</sup>Government's Decision 330/2014, published in the Official Gazette no. 320 of 30.04.2014

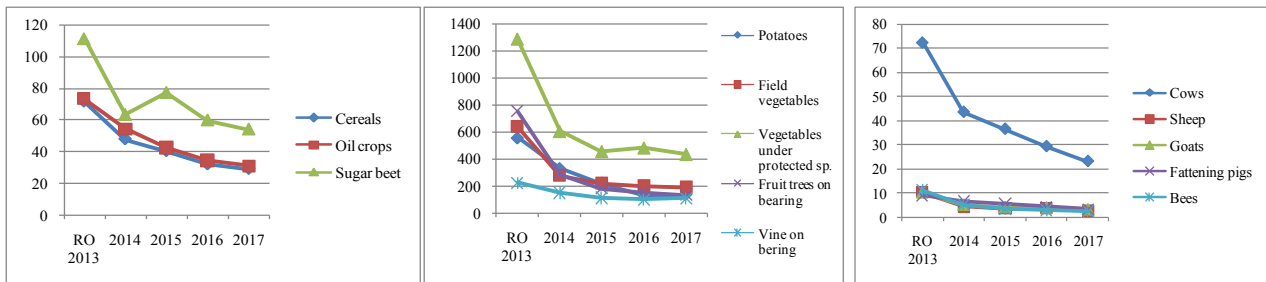
selling prices for cereals and the estimated increasing evolution of production costs per hectare. (Figure 1)



Source: Toma, C., Izvoranu, A.M, 2017

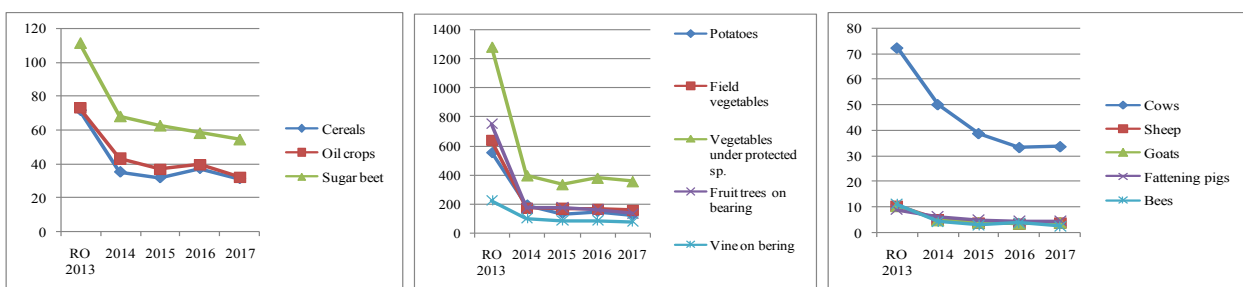
Figure 1. Evolution of calculation elements for determining the regional average of county income norms per hectare of cereals, in the region Sud, in the period 2013-2017

As the agricultural income norm per hectare is equivalent to a taxable standard gross profit, its decreasing evolution leads to an increasingly small tax calculated per hectare or per animal head, which is a phenomenon noticed in all regions. (Figures 2 to 9)



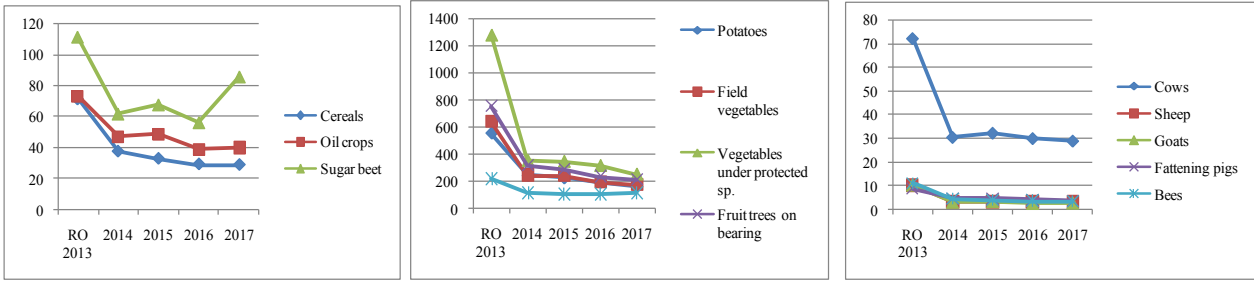
Source: anaf.ro, authors' processing

Figure 2. Evolution of the size of calculated income/ha/animal head on Nord-Vest regional average of county agricultural income norms



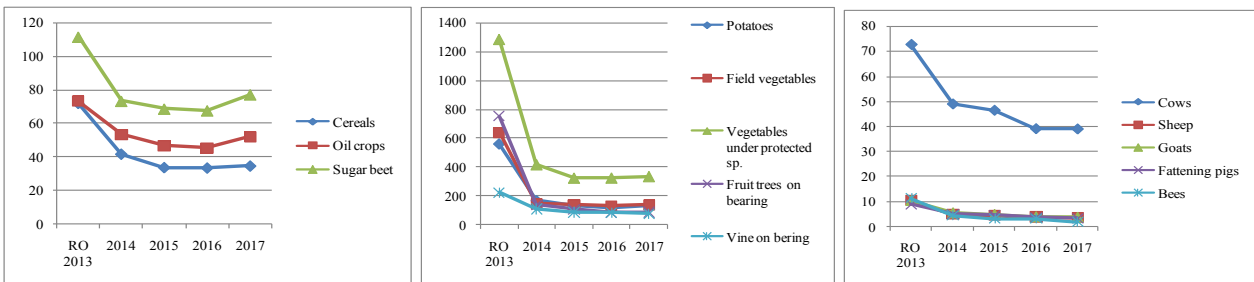
Source: anaf.ro, authors' processing

Figure 3. Evolution of the size of calculated income/ha/animal head on Centru regional average of county agricultural income norms



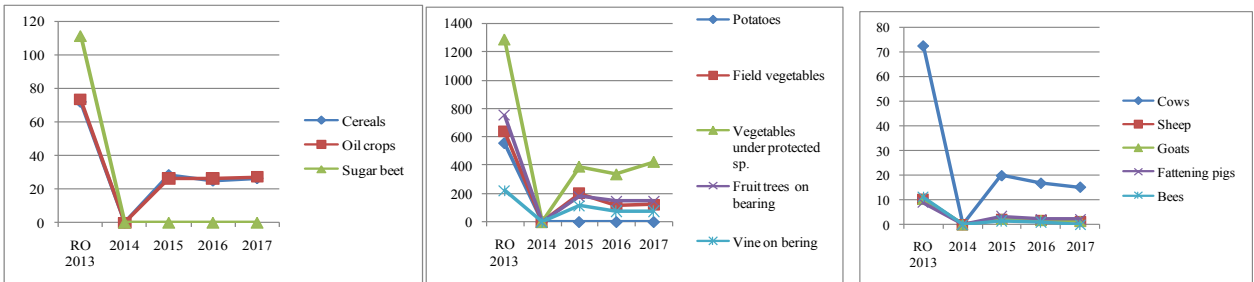
Source: anaf.ro, authors' processing

Figure 4. Evolution of the size of calculated income/ha/animal head on Nord-Est regional average of county agricultural income norms



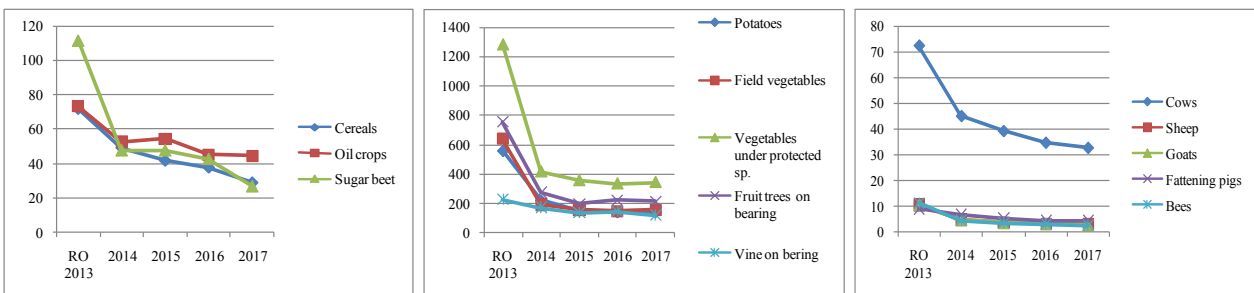
Source: anaf.ro, authors' processing

Figure 5. Evolution of the size of calculated income/ha/animal head on Sud-Est regional average of county agricultural income norms



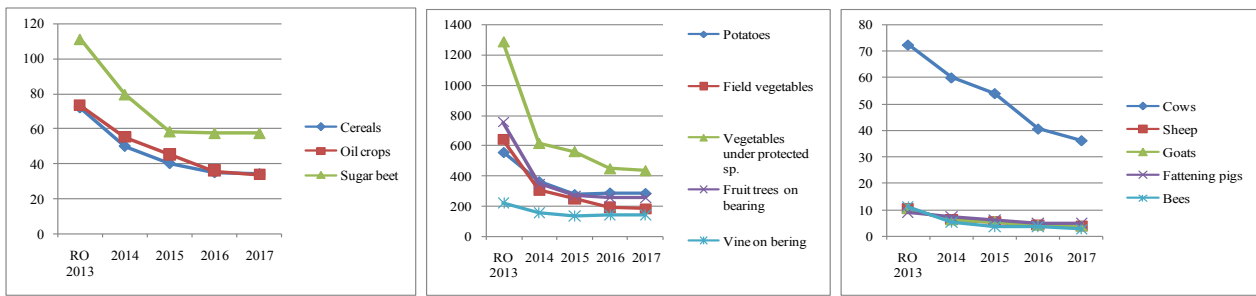
Source: anaf.ro, authors' processing

Figure 6. Evolution of the size of calculated income/ha/animal head on Ilfov county agricultural norms



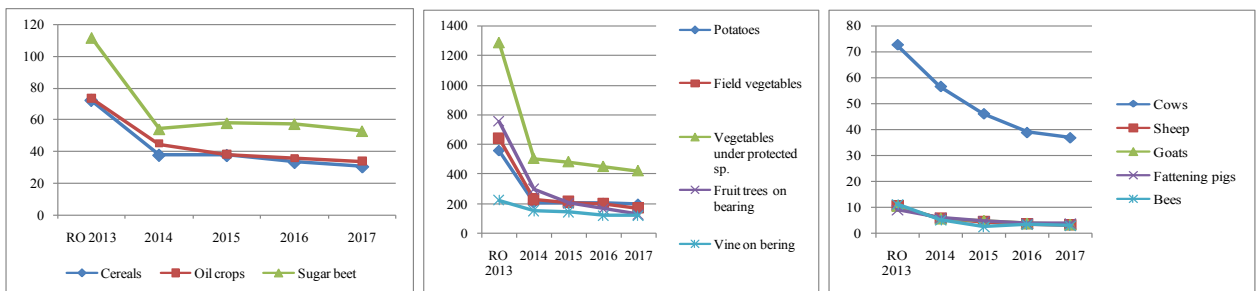
Source: anaf.ro, authors' processing

Figure 7. Evolution of the size of calculated income/ha/animal head on Sud regional average of county agricultural income norms



Source: anaf.ro, authors' processing

Figure8. Evolution of the size of calculated income/ha/animal head on Sud-Vest regional average of county agricultural income norms



Source: anaf.ro, authors' processing

Figure9. Evolution of the size of calculated income/ha/animal head on Vest regional average of county agricultural income norms

As in the application rules the cultivated agricultural areas smaller than 2 hectares are not taxable, the statistical data prove that the new taxation method, based on norms, of agricultural incomes on individual agricultural holdings (without legal status), **does not affect more than 70% of producers**, as the taxation rule exclude from tax payment the farms under the minimum threshold for each type of crop. **These represent about 23% of total agricultural area.** (Table 1)

Table 1

Structure of utilized agricultural areas and of the number of individual holdings, grouped by UAA size classes

UAA size classes	Ha UAA	No. of individual holdings	% ha from class in total	% no. of holdings from class in total
<2 ha	1713130	2723530	23	73.7
2-4.9 ha	2218480	723870	29.8	19.6
5-9.9 ha	1190830	179530	16	4.9
10-19.9 ha	542910	41500	7.3	1.1
20-29.9 ha	211050	8790	2.8	0.2
30-49.9 ha	270910	7080	3.6	0.2
50-99.9 ha	380210	5580	5.1	0.2
>100 ha	922110	4240	12.4	0.1
<b>Total Romania</b>	<b>7449630</b>	<b>3694120</b>	<b>100</b>	<b>100</b>

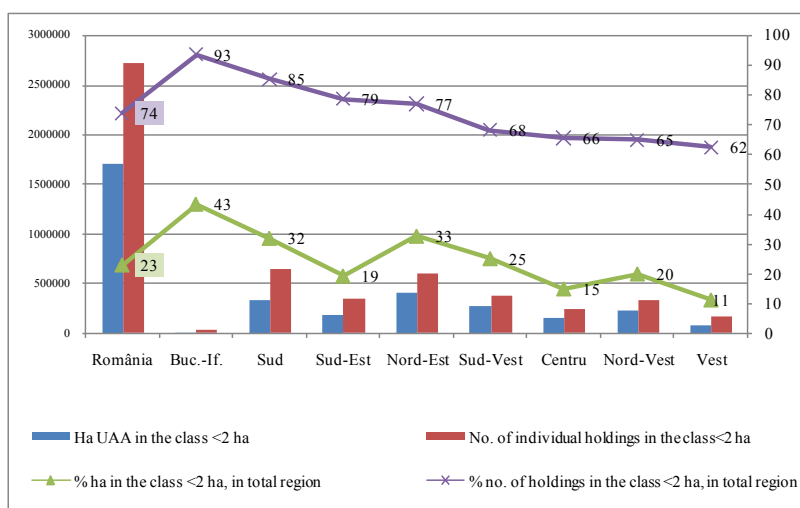
Source: Romania's Statistical Yearbook, 2014, authors' calculations

This exemption from payment of agricultural income taxes is in line with the agricultural policy, in which this type of farms does not receive direct subsidies, as these cultivate crops on parcels smaller than 0.3 ha.

However, although facilities have been created for the diminution of tax burden, the measure does not bring positive incentives for the subsistence farms to increase their area or number of animals, so that they become more market-oriented.

Even the farms with 2-10 ha will diversify their crops so that they will decrease their areas for each crop in part, so as not to exceed the non-taxable areal limit or they will keep animal herds that do not exceed the non-taxable number of animals (2 cows, 50 breeding sheep, 25 breeding goats, 6 pigs, 100 poultry).

The regional distribution of the number of UAA ha and of the number of individual holdings from the category <2 ha makes the regions Vest, Centru, Sud-Est and Nord-Vest stand out, with shares of areas from the class <2 ha ranging from 10 to 20% of total UAA of regions. (Figure 10)



Source: Eurostat 2013

Figure 10. Distribution of utilized agricultural areas and of the number of holdings in the size class “under 2 ha” by development regions

The regions Sud-Muntenia and N-E Moldova stand out as negative examples, where one-third of UAA in each region belong to the farms from the class <2 ha, accounting for more than three quarters of the number of farms.

According to a specialty study (Jitea, I. M. & all. , 2013), the tax income expected from the other categories of farms from taxable size classes is presented in Table 2.

Table 2

Taxes and healthcare contributions expected to be collected in the year 2013, on the basis of agricultural income norms from the potential agricultural holdings, UAA areas and animal herds, taxable and non-taxable

Taxable size class	Taxes and SSHC expected to be collected in 2013 from a number of farms with:					Total -thou. RON
	>2 ha	> 2 cows	> 50 sheep	> 25 goats	> 6 pigs	
<b>Number of taxable holdings</b>	970,590	189,170	20.185	12,013	328,906	Xxx
<i>No. of non-taxable holdings<sup>*)</sup> ”&lt; ”</i>	2,723,530	535,371	250.633	164,128	1,319,652	Xxx
<b>Number of taxable ha/heads</b>	5,736,500	1,107,634	5.405.523	736,883	1,818,590	Xxx
<i>No. of non-taxable ha/heads<sup>**)</sup> ”&lt; ”</i>	1713,130	700,000	2.663.261	313,855	2,000,000	Xxx
<b>Taxes- thou. RON-</b>	273,833.2	53,087.5	33.259,2	2,248.4	145	<b>362,573</b>
<b>Social security and healthcare contributions (SSHC)- thou. RON-</b>	94,130.2	18,248.9	11.432,9	772,9	49.9	<b>124,634</b>

Source: Jitea, I.M. & all, 2013; authors' processing and calculations.

\*) Number of holdings whose operated areas by types of crops or number of females from different animal species fall within the tax exemption thresholds

\*\*\*) Total amount of utilized agricultural areas and number of animals belonging to the farms from the size classes that fall within the tax exemption thresholds

In the livestock sector, (Jitea, I. M. &all., 2013) show that about 850 thousand farmers, out of which 535 thousand individual producers with only 2 cows, 250 thousand producers with up to 50 breeding sheep, 164 thousand with up to 25 breeding goats and 1.32 mil. producers with maximum 6 pigs and 100 poultry heads, are not affected by tax regulation.

At the same time, 2.7 million crop farmers with less than 2 hectares, summing up 1.7 million ha UAA, are exempted from the payment of taxes and healthcare contributions.

According to data from the State budgets, the taxes planned to be collected through the State Budget in the year 2013 amounted to 418 million RON, i.e. 363 million RON, plus taxes on rental incomes worth 55 million RON .(Table 3)

Table 3.

Tax incomes from agricultural activities and from rent collected at the State Budgets in the period 2011-2017

Item	2011	2012	2013	2014	2015	2016	2017
<b>Tax incomes –Total -thou.RON-</b>	<b>67619696</b>	<b>75726894</b>	<b>83443762</b>	<b>85728709</b>	<b>89467904</b>	<b>88251589</b>	<b>87674336</b>
<b>Tax income natural persons</b>	<b>18400243</b>	<b>19672897</b>	<b>22897808</b>	<b>23738666</b>	<b>25051500</b>	<b>25871374</b>	<b>29889400</b>
Tax income from agric. activities	4056	20258	417987	175803	147696	154520	108789
Tax income from rent	0	4800	55425	56811	132669	110005	150627
<b>Agricultural tax from natural persons</b>	<b>4056</b>	<b>25058</b>	<b>473412</b>	<b>232614</b>	<b>280365</b>	<b>264525</b>	<b>259416</b>
<b>Share of agric. tax in total tax incomes</b>	<b>0.01</b>	<b>0.03</b>	<b>0.57</b>	<b>0.27</b>	<b>0.31</b>	<b>0.30</b>	<b>0.30</b>
<b>Share of agric. tax in tax incomes of natural persons</b>	<b>0.02</b>	<b>0.13</b>	<b>2.07</b>	<b>0.98</b>	<b>1.12</b>	<b>1.02</b>	<b>0.87</b>
SSHC cashed with deduction at source in total agricultural incomes of natural persons		37014	5964	294	227	56	
SSHC cashed from rental incomes of natural persons		0	0	28877	51544	48440	

Source: State budgets of the Ministry of Finance 2011-2017 and of National Health Insurance House, own calculations

The share of tax contributions of farmers to the State Budget and health insurance budget was relatively constant over the last five years, i.e. about 1% of the tax revenues received from natural persons and 0.3% of total tax revenues.

## CONCLUSIONS

In the period 2013-2017, from the processed statistical data from all the development regions, we could notice the same decreasing trend of the average agricultural income norms in almost all investigated products.

As the agricultural income norm per ha/head/bee family is equivalent to a reference taxable standard gross profit, its decreasing trend leads to an increasingly small calculated income, which seems to be in favour of tax payers – natural persons.

Yet, if we take into consideration that the agricultural income norms were established not only on the basis of statistical office calculations, but also through annual negotiations with small farmer representatives at the level of each county, we can conclude that the economic-financial results from the farming activities of small farmers were increasingly weaker, mostly due to the increasing agricultural input expenditures and decrease of agricultural products selling prices.

The statistical results and the previous academic research studies show that the new taxation method based on agricultural income norms for individual agricultural holdings **does not affect more than 70% of farmers**, who cultivate **1.7 million hectares UAA in the class under 2 ha**, **535 thousand** individual producers with only 2 cows, **250 thousand** producers with up to 50



breeding sheep, **164 thousand producers** with up to 25 breeding goats and **1.32 mil.** producers with maximum 6 pigs and 100 poultry heads.

**The taxes and contributions to the health insurance fund on rental incomes almost tripled** in the last five years, and in 2017 contributed by 80% more than taxation based on incomes from the individual farming practice.

A greater appetite for leasing out land can be determined by a lower tax burden on rental incomes than in the case of individual farming and taxation based on income norms and/or by the migration of young rural labour to Western Europe, while only an aged labour force has remained home, forced by circumstances to lease out the arable land.

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