

Toma, Mircea

**Conference Paper**

## The influence of VAT on agricultural producers: Theoretical considerations and practical measures for economic crises effects decrisis

**Provided in Cooperation with:**

The Research Institute for Agriculture Economy and Rural Development (ICEADR), Bucharest

*Suggested Citation:* Toma, Mircea (2012) : The influence of VAT on agricultural producers: Theoretical considerations and practical measures for economic crises effects decrisis, In: Agrarian Economy and Rural Development - Realities and Perspectives for Romania. 3rd Edition of the International Symposium, October 2012, Bucharest, The Research Institute for Agricultural Economy and Rural Development (ICEADR), Bucharest, pp. 346-354

This Version is available at:

<https://hdl.handle.net/10419/76850>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# THE INFLUENCE OF VAT ON AGRICULTURAL PRODUCERS THEORETICAL CONSIDERATIONS AND PRACTICAL MEASURES FOR ECONOMIC CRISES EFFECTS DECRISIS

TOMA MIRCEA<sup>1</sup>

## Abstract

*The purpose of this paper is to highlight the effects of lack of liquidity in the financial system and profit from uncontrolled migration pathway (in relation producer, processor, merchant bankers, concentration and profit growth in the last links in the chain from producer to end - the consumer). In this variant is proposed adjustment method value added tax on the three sectors of the national economy: the primary, secondary and tertiary education in the size of enterprises. The proposed measures, there is a "movement" to collect VAT payable to the tertiary sector (trade), which is closer to cashing the value of goods to the end user, the consumer, and exerting pressure on operators in hiring costs by making the assumption VAT cost. with VAT reduction proposed variants are accelerating state budget revenue collection from this source while reducing the amounts returned operators with the right and the radical version increase the recovery of VAT payable on the branch of from 14.9 to 16.26% share of 24%, providing additional potential income of about 600 000. lei (150,000 euro) at no additional cost (VAT collected on a budget estimated at 40 billion lei annually).*

**Keywords:** agriculture, financial crisis, profit, VAT, agricultural producers

## INTRODUCTION

Compared with the crisis of 1929-1933, but with other intensity, the crisis of this beginning millennium retains the same general characteristics with the first crisis from 1825: cash money disappear from the market, loaning stop, trade stagnated, growing stocks of certain goods (now automobile and real Estate), the production of goods is reduced, multiply bankruptcies and forced sales, increase unemployment, and so on, and "abundance becomes a source of misery and deprivation" as noted by FM Charles Fourier (1772-1837).

By replacing etatist regime and accession to the values of capital and private initiative, Romania (including eastern Europe countries) are facing one of the most complex paradoxes: in 1992, the European Union (EU-15) begins an accelerated process of reforms following inefficiency recognition model of development; after integration, since the end of 2007, the entire capitalist system is comprised of financial and economic crisis with the prospect of a real recession.

Agriculture can not be analyzed outside of these phenomena more so as humanity faces on one side with an acute global food crisis, and on the other side with overproduction. However, the World Trade Organization (WTO) exerts a strong pressure to liberalize agricultural trade, elimination of subsidies and protectionist measures and ultimately lower prices and hence incomes of farmers, in terms of allocation of substantial funds in the financial system, of the crisis, have increased proven cases of fraud, oversized salaries and bonuses, compared with agricultural production subject of climate change.

In the current context, in addition to the economic crisis, agriculture faces with climate change, accelerated reduction of biodiversity, degradation processes, soil erosion and pollution, reducing freshwater resources, etc..

## MATERIAL AND METHODS

The research method used is qualitative analysis that follows, by studying literature documents, and so on, highlighting both the economic crisis and the presentation of opportunities that may counteract the effects of the crisis.

---

<sup>1</sup>Dr Economist – Academy of Agriculture and Forestry Sciences – Bucharest; e-mail: [ec.mtoma@yahoo.com](mailto:ec.mtoma@yahoo.com)

For the second part of the paper, we propose some practical solutions as possible measures to be adopted to overcome the crisis, to support the Romanian agriculture and with effects on agriculture producers in particular. The working hypothesis is another approach to adjustment system of the VAT in the three sectors of the national economy: the primary, secondary and tertiary compared with the size of enterprises. To adjust the value added tax there are used two variants: variant moderate (progressive increase in the VAT rate by sector, from 15% to 24%) and radical version (determining the percentage of sectors: primary, secondary and tertiary 9% while maintaining 24% share of the tertiary sector).

## RESULTS AND DISCUSSION

From present financial crisis derives at least two questions:

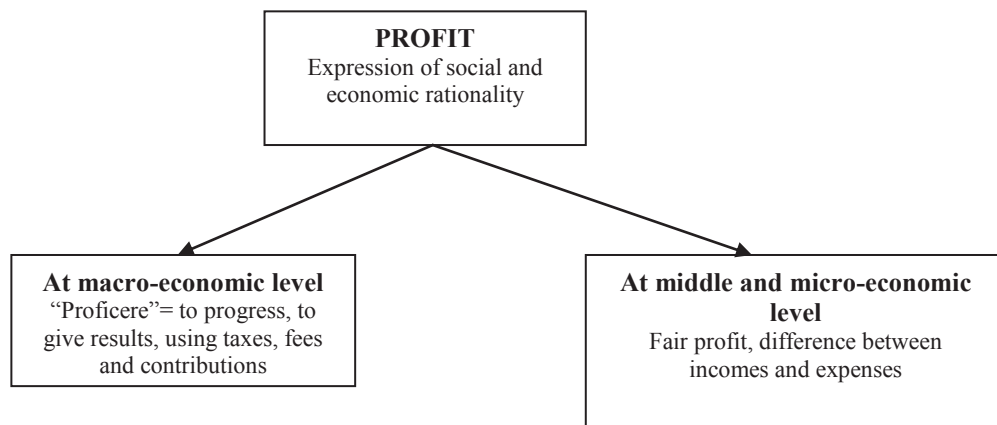
1. Where are the profits of the capitalist model of development over the years? How it's explained "sovereign debt"?
2. What are the current sources for the establishment of funds, global and regional, for support the announced programs, if there is a cash shortage so acute?

The current crisis has shattered once again, the illusion of continuous economic growth, based on neo-liberal theories and models, according to the principle "laissez faire, laissez passer".

In essence:

- Lack of liquidity is the tip of the iceberg, and
- Profit is the Gordian knot.

**Figure 1. Profit representation – expression of social and economic rationality**



**Source: The author**

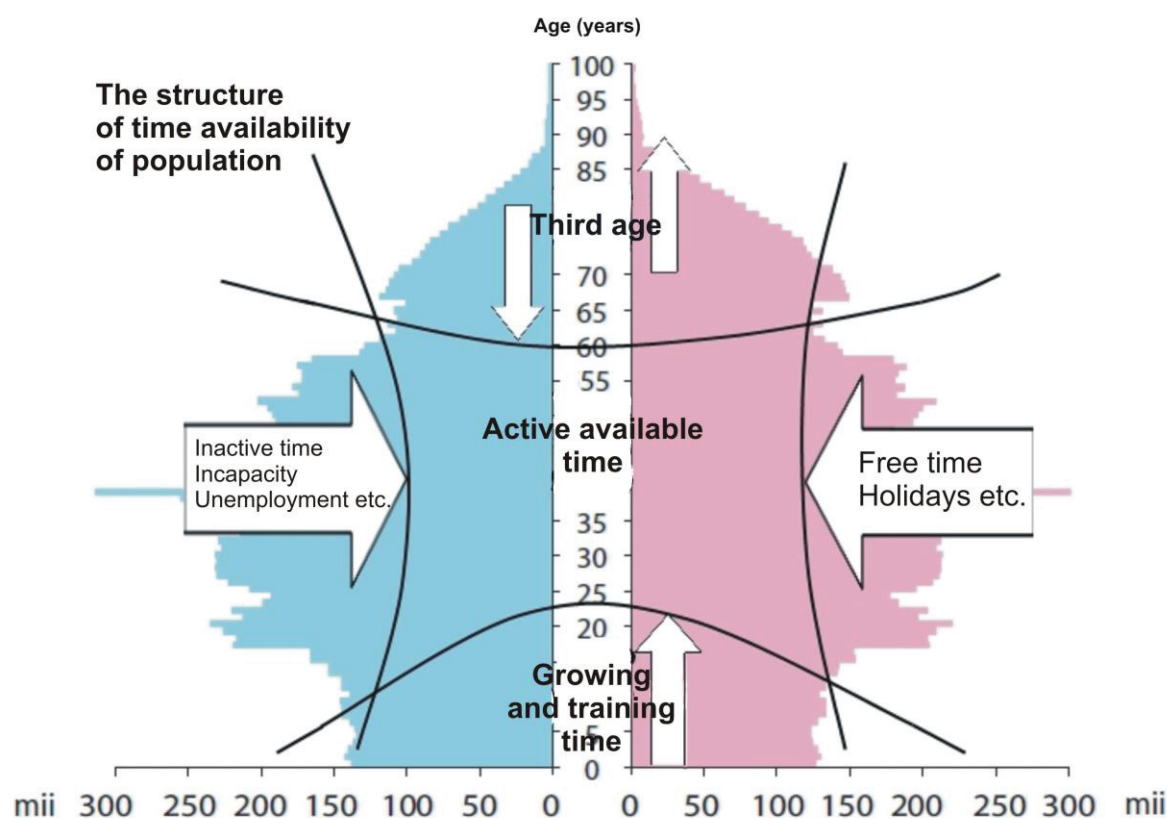
When production of a society it's expressed and traced only in value, in terms of maximizing profit, without tracing the content and the real destination of goods and services, the history confirms, loses its ability to self-regulation and ends with the crisis.

The share of tertiary sector increasing to 60% and changing the place with the primary sector which represent only 10-15% (with agriculture) in Gross Domestic Product (GDP) and gross value added (GVA) has determined the inequitable obtaining and redistribution of profit on the channel.

It has and still having an uncontrolled migration of profit on the relationship producer - process - trade - bankers, profits concentration and increasing in the last links of the chain until the final payer - the consumer.

As following of economic progress, determined by the industrial society that has brought standardization, specialization, synchronization, concentration, maximization, centralization has been a continuous release of labor from primary and secondary sectors. Partly, labor force was absorbed by the tertiary sector.

Figure 2: The structure of availability time of population



Source: The author

Progress in knowledge and technology has led to a changing of occupational structure of active labor between the primary, secondary and tertiary in G.D.P. and G.V.A. realization.

#### **Agriculture – opportunity for overcome the crisis**

Agriculture is more than a production volume. All advanced economies of the world have reached their present level of economic development on the basis of a competitive agriculture.

High share of agriculture (13-14% as in Romania) in GDP can become an opportunity to increase the general welfare in terms of the role change "peasant" and the State in the development of society, but without becoming dependent on technology and technology agricultural importance.

#### **The main constraints of farmers in the European context**

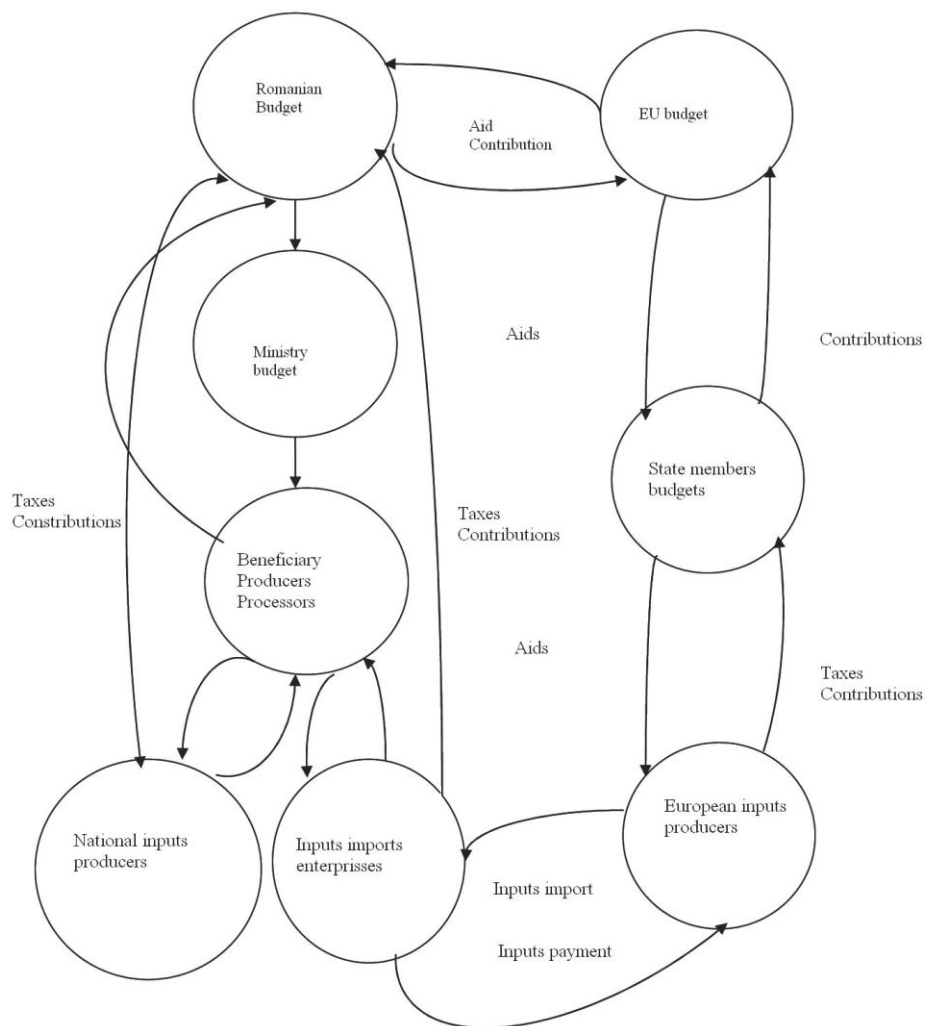
No matter of the type of ownership (public, mixed or private) and organizational (public institution, directing, or national company, firm or association agricultural family business or individual producer - with or without legal personality) farmer faced and will face partially or totally, with constraints at European level, that are related to productivity, efficiency, effectiveness, free movement of agricultural products, elimination of customs duties, agricultural taxation, changing mechanisms to support agricultural production, reducing and then eliminating subsidies agricultural production services for the preservation and conservation of nature and rural development; euro - as instrument of comparable food products with competitive prices.

#### **EU funds absorption - Risks and Vulnerabilities: Who helps you free?**

Funding schemes of various programs supported by the EU are generally known: the EU budget, national budget and beneficiaries in various proportionality.

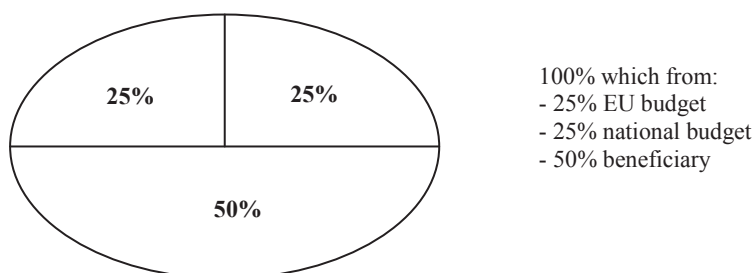
Synthetic circuit proportionality of grant funds and state payable are:

**Figure 3 European funds circuit in Romania**



**Source: The Author**

### The standard matrix of projects financing



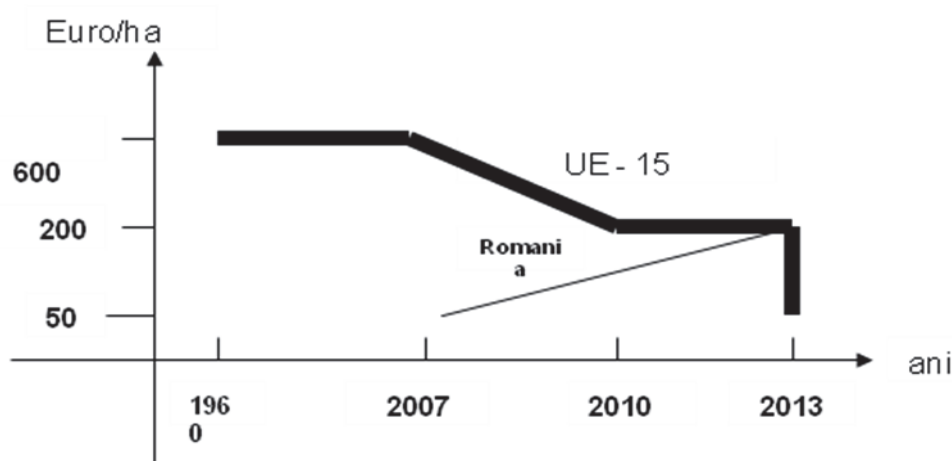
The 32 billion euro grant from the EU, anesthetized many of us. In fact, Romania contributes 1% of GDP annually (about 1 billion / year) plus other contributions (such as sugar, in 2008 almost 30 million Euros in OCM) contributions and inter-professional associations.

In conditions of ensuring the inputs from import, it's increasing the current account deficit, stimulate production and achieve added value (profit) in EU countries, the domestic employment market it's shrinking and its imported unemployment, the need for funds and/or loans for the funds from the state budget and the EU budget beneficiaries it's increasing.

The condition for efficient use of EU funds is:

***The value for inputs import ≤ Sums received from EU***

**Figure 4 – Comparative evolution of subsidies in EU and Romania**



Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
%	25	30	35	40	45	50	55	60	65
Euro/ha	50	60	70	80	90	100	110	120	130

Source: Own calculation

Compared to 200 euro / ha envisaged by the EU in 2013 - Romania will receive 110 euro / ha (only 55%), the difference will be provided from internal resources.

### **The VAT influence on agricultural producers**

Value Added Tax (VAT) is an indirect tax supported by the final consumer of the goods/service. VAT is a tax charged in cascade from each economic operator participating in the economic cycle to manufacture a product or provide a service covered by the tax.

In Romania, VAT was introduced and implemented on 1 July 1993 as a form of harmonization with EU tax system used. Currently there are applied three rates: the standard rate of 24% (from 1 July 2010) and two reduced rates of 9% and 5%. Also a number of goods and services are exempt from VAT. Exit also the optional possibility to pay VAT for operators conducting a turnover of up to 35,000 Euros, and from 1 January 2013 up to 60,000 Euros.

Besides the fact that agriculture has faced and is facing serious problems in both the upstream input prices and prices of its products as expressed by "price scissors" individual farmer also face some disadvantages created by laws that not held and not keep up with the changes that have taken their ownership structure and economic conditions of agriculture development processes.

In this context a special aspect it's represented by the value added tax.

Although since it's introduction as modern form of consumption tax, both, the base and the tax rate had suffered several changes, VAT did not solve the issue of received price (cash) by the individual producer compared with the legally organized one, creating more parallel markets: the peasant market as direct relationship between farmers and consumers and market of products that run on organized farmers legal relationship - wholesalers - processors - traders, and less on individual producer relationship - processors, and a speculative market on individual producer relationship - wholesalers (retailers of agricultural products in their natural state) - the consumer.

Individual agricultural producer (associate), without legally personality, through the methodology adopted for VAT regulation is obliged to bear on costs related value of all inputs used in agricultural production (seeds, fertilizers, pesticides and herbicides, fuels, lubricants, mechanical works and other services and so on.).



VAT acted and acts inhibitory, introduced and maintained fiscal inequity, has lost its neutrality and exclude a great mass of agribusiness products from regulated market circuit, with negative effects on producer - industrialist - trader - consumer – domestic budget.

In a stabilized market economy, all participants in a product chain must win fairly:

**Financial institutions ⇒ Inputs suppliers ⇒ Agriculture producer ⇒ Wholesaler ⇒ Processing Industry ⇒ Trader ⇒ Consumer ⇒ State**

It must be avoided uncontrolled migration of profits from one sector to another by establishing of interdependence between partners that participate in chain manufacture a product based firm contracts.

### **Influence of VAT on agricultural producers**

#### **a. The influence on costs and economic results**

Specification	Company	Individual agricultural producer.		Differences	
		P.I.-S.C.		a	b
		a	b		
Invoice price (received) (2+3)	124	100	100	-24	-24
VAT – collected	24	-	-	-24	-24
Negotiated production price	100	100	100	-	-
Other price elements included the profit	40	26,5	40	-13,5	-
VAT afferent inputs-deductible	-	13,5	10,5	+13,5	+10,5
Costs of inputs and materials, services subject to VAT	60	60	49,5	-	-10,5

Source: Own calculations

#### **b. The influence on received sums by the producer and paid by the user**

Specification	Company	Individual producer	Average price
Invoice price (paid)	124	100	110,5
VAT collected	24	-	13,5
Production price	100	100	100

Source: Own calculations

### **Some measures to counter the crisis:**

#### **1. VAT adjustment on sectors;**

a) Moderate option: setting the VAT rate to 15% in the primary sector and agriculture, 19% in the secondary sector (manufacturing) and 24% in the tertiary sector.

**Tabel 1: Setting the VAT share in a progresiv mode**

Specification		Activities sectors			Total flux
		Primary (1)	Secondary (2)	Tertiary (3)	
VAT proposed share		15%	19%	24%	
Cumulated share of the sectors in the final price		40%	75%	100%	124
VAT chargeable	a) present	3,50%	6,65%	4,75%	14,9
	b) proposed	1,10%	6,05%	7,75%	14,9
	c) differences	-2,40%	-0,60%	3,00%	0

Source: Own calculations

b) Radical option: set quota for sectors 1 and 2, and the movement of goods between them to the level of 9% and 24% share for tertiary sector.

**Table 2 VAT share established to 9%**

VAT collected	6,76	19,00	24,00	124,00
VAT deductible	3,60	6,75	9,94	2,04
VAT chargeable	3,15	12,25	14,06	16,26
Difference from the present share.	3,50	7,50	8,75	2,60

Source: Own calculations

c) As a complementary measure, order the operators of retail food products for the payment of a part of the VAT payable as advance form during the month (from to 20 or 25) and regulation to 25 of the next month.

2. a) granting the right to deduct VAT rate of 15.966 (equivalent rate of 24%) of the price paid by the users individual producers of agricultural products as:

- Agribusiness manufacturing products for human consumption (except for the manufacture of grain alcohol), represented by the milling and baking industry, meat and milk, oil and sugar etc.
- Complex breeding (cows, fattening cattle, pigs, sheep) and poultry fodder cultivation (barley, corn, alfalfa etc.).
- Wholesale markets, buying centers and storage of agricultural produce (vegetables and fruits, cereals and technical plants and so on).

b) Negotiation and circulation of agricultural products purchased from individual producers at prices including VAT.

c) Generalization "procurement slip" as document of special regime for regulating and monitoring income tax farmers.

3. Support agricultural producers with subsidized interest loans grace period until they obtain the production (harvest) and to finance approved projects to collect amounts outstanding from the national budget and EU agriculture by establishing a bank (by APIA structure);

4. Up a temporary fund to support producer groups by giving a rate of 2% of the price charged by individual producers as "assigned revenue" (EU model);

5. Review of the current conversion factors of major agricultural products in one wheat kg (barley 1.10 / kg / wheat, corn, 1.30 kg / wheat, sunflower 0.40 kg / wheat, sugar beets 7 kg / wheat) as part of orientation in determining the structure of crops and price negotiation;

6. Establishment of agricultural intervention stocks mandatory in nature for rent collected from public land leased by MARD;

7. Supporting agricultural research funding from the state budget;

8. Increasing the advances for R&D projects won in a competitive system from 30% to 60%.

9. Domestic support for agricultural and industrial inputs for agriculture, the processing industry of agricultural products as raw materials, with subsidized interest loans;

10. Introduction of *partnership agreement* for the development of economic activities between *representatives of the state* (MARD through the Farm Registry) and farmers to traders.

11. change the methodology for determining and income tax

12. Reconsideration of the tax and contribution burden sharing between employees and operators

#### **Expected effects**

- Accelerate and streamline of cash flow, reducing the demand for loans and increasing the economic efficiency of farmers - operators.
- Increasing individuals farmers' income (with 10 to 13%) without affecting the cost of raw materials or extra budgetary efforts, raising living standards, and / or funding sources to purchase inputs, provision of mechanical etc..



- Stabilizing of agricultural products markets by: stimulating producers association, increasing the role of economic contracts and developing a civilized trade chain, reducing intermediaries and speculation in markets and ensure security of food supplies at competitive prices.
- Reduce the pressure on MARD budget for agricultural subsidies and increasing their economic effect on individual farmer and/or the associated increase agriculture's contribution to the formation of state budget resources.
- Comparability cost structure and prices with manufacturers in EU countries.

## CONCLUSIONS

Counter the crisis, theoretically, but practically can not ignore its effects, both directly and subsidiary effects (collateral) that may be more important on chain:

*Financial institutions ⇒ Inputs suppliers ⇒ Agriculture producer ⇒ Wholesaler ⇒ Processing Industry ⇒ Trader ⇒ Consumer ⇒ State*

Solutions require transparency, solidarity, equity, social justice in the distribution of efforts and usufruct (profit) on chain of all participants to achieve useful goods and services to human society.

An orderly adjustment of tax and contribution system may lead to the adoption of those measures that will stimulate domestic consumption, increase domestic production and rotation speed of the capital, and to reduce the budget deficit, uncontrolled growth of prices, inflation, unemployment, in a word economic life imbalances.

Crises, whether financial or economic, past and recent history demonstrates, ends with changing systems (models) for the organization of society or violent (revolutions, coups, wars) or peaceful (velvet revolution in Czechoslovakia) in agreement with the intensity and affordability of people.

Therefore the current crisis should be managed with greater accountability and transparency in the spotlight reinstatement rights and human personality, in which social development can not be left to chance, market forces as regulator.

Without claiming to exhaust the topic discussed, duties, taxes and contributions should be regarded not only as mere budgetary resources, as well as effective tools to guide operators through the tax and mechanisms that can promote competent state institutions in stabilizing market goods and services, as part of a functioning market economy. Reforms in the Romanian economy must accumulate and "burn" but also to avoid some mistakes in the steps already developed countries. These goals can not be achieved without scientifically analyzes tailored to Romanian realities.

Free enterprise combined with the use of capital, be it their own or borrowed, to obtain a product or a service, is based on state mandates given by the relevant institutions in order to meet the requirements of goods and services to society, communities or individual.

In exchange for a fair profit "initiator-employer" shall comply with rules and regulations socioeconomic stated by law, to ensure quality goods and services at affordable prices. And inter-professional bodies have the task of establishing the strategy, delivery and purchasing, receiving and payment based firm agreements and commercial contracts concluded on track.

State institutions are required to develop and adopt legislation that would lead to harmonization as equitable interests and the application of the criteria and mechanisms for production, processing, transformation and marketing of agricultural products so as not to cause imbalances in the market and the creation of monopolies, distortion of competition within the domestic and European competition.

## BIBLIOGRAPHY

- [1] Bernard C. (1994) – Vocabular economic și financiar, Editura Humanitas, București.
- [2] Bold, I., Crăciun, A., (1999)- Organizarea teritoriului, Timișoara , Editura Mirton;
- [3] Brown, L., (1992). Probleme globale ale omenirii, București, Editura Tehnică;
- [4] Brown, L. (2000).- Starea lumii, București Editura Tehnică;
- [5] Ciutacu, C-tin.,(2001) - Reformă și metareformă, București, Editura Expert;
- [6] Constantinescu, N.N. (1997), Istoria Economică a României, București, Editura Economică,;
- [7] Constantinescu, N. N (1992) - Dileme ale tranziției la economia de piață, București , Editura Ager;
- [8] Crisan, I. (1991)- Către o industrie competitivă, București, Editura Humanitas;
- [9] Denis, Auvers.(1991) , - Economia mondială, București, Editura Humanitas;
- [10] Dăianu, D., (1999) - Structură, încordare și dinamică macroeconomică, Tranziția economică în România, Trecut, prezent și viitor, București;
- [11] Dobrotă N (1999) Dicționar de economie (coord.), Editura Economică, București;
- [12] Dragan, M., Pelassy, D.(1992) – Economia mixtă, jumătate capitalist, jumătate socialist, Editura Alternative, București
- Engels, Fr., (1976) Anti-Diiring, București , Editura Politocă,;
- [13] Frege, X.( 1991) - Descentralizarea, București, Editura Humanitas,;
- [14] Georgescu-Roegen, N., (1979) - Legea entropiei și procesul economic, București, Editura Politica;
- [15] Malița, M., Cioban, N. (1979) Alimentația și agricultura în următoarele decenii, Editura Politică, București;
- [16] Otiman, P., Agricultura, factor de atenuare a crizei economico-financiare și de relansare a creșterii economice, [17] ProfitulAgricol nr. 1/2009;
- [18] Rugina A., (1992) Un mineral economic în România este încă posibil, Editura Porto-Franco, Galați;
- [19] Gr. I Silași (1976) Economia Viitorului, Editura Politică, București;
- [20] Toffler, A. – Al treilea val, Editura politică, București;
- [21] Toma Mircea B. (2007) – Cercetarea agricolă – sincopele tranziției, reflecții asumate, S.C. Tipografia Slobozia S.A;
- [22] Zahiu, L., (1992) Agricultura mondială și mecanismele pieței, Editura Arta grafică, București;
- [23] Zahiu, L. (coord - 2001) – Politici și piețe agricole - reformă și integrare europeană, Editura Ceres, București;
- A.S.E., (2000) Catedra de Economie si politici Economice – Economie Politică, ediția a V-a, Editura Economică, București