

Transformation of the tax system of Ukraine in order to promote the development of agricultural production

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Abstract. The agricultural sphere in Ukraine is one of the main spheres of activity and belongs to the priority components of the country's national security. However, at the current stage of development, this area operates with significant inconsistencies, and the products produced are not always competitive in foreign markets due to non-compliance with the quality standards of foreign countries. It is possible to improve the state of affairs in the direction of intensification of agricultural activity with the help of stimulating levers of the tax system. Because the high tax burden, which the multiplicity of taxes provides to business entities, reduces the amount of their financial resources, which could potentially be used to update production capacities, improve production technologies, and increase the level of its innovation, etc. In addition, indirect taxes, in particular value added tax (VAT), significantly increase the cost of manufactured products and reduce their competitiveness in domestic markets. Thus, the purpose of the article is to analyze the situation in agricultural production and determine the factors of its desired transformation in the sphere of functioning of the tax system in order to stimulate the promotion of the development of this industry. Therefore, it is necessary to find out the main indicators of the economic, social and fiscal efficiency of the functioning of enterprises in the agrarian sphere and to indicate potentially relevant directions of development of the studied industry from the point of view of the transformation of the tax system. The article examines the current state of functioning of agricultural production in Ukraine from the point of view of economic, social and fiscal efficiency. Current trends in the transformation of the tax system in the conditions of the transitional economy of Ukraine are presented, which in the near future and in the long term encourage the industry to qualitatively new development

Keywords: agricultural production, economic efficiency, social efficiency, fiscal efficiency, rural population, single tax, fixed agricultural tax

INTRODUCTION

Agricultural production in Ukraine is one of the basic spheres of activity and belongs to the key components of the country's national security. However, at the current stage of development, this industry operates with significant imbalances, and the products produced are not always competitive on foreign markets due to non-compliance with the quality standards of foreign countries. It is possible to move the state of affairs in the direction of intensification of agricultural activity with the help of stimulating levers of the tax system. After all, it is the high tax burden that creates a multiplicity of taxes on business entities, which reduces the amount of their financial resources, which could potentially be

involved in updating production capacities, improving production technologies and increasing the level of its innovation, etc. Separately, it should be noted that indirect taxes, such as value added tax (VAT), significantly increase the cost of manufactured products and reduce the level of their competitiveness in domestic markets.

Taking into account the priority of the agricultural sector for the security functions of Ukraine, as well as from the standpoint of the need to bring the conditions of its functioning to favorable for increasing ecological, economic, competitive and export potentials, scientists and practitioners direct their views on the optimization of the tax system of the state in the mentioned field of activity.

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In particular, V. Sinchak, analyzing the conditions of taxation in agriculture, emphasizes the need to use simplified and alternative taxation systems that will be "... calculated for different groups of subjects...", which, in turn, "... will have the opportunity to choose for calculations with the state most understandable for them, which, at the same time, would not restrain the development of their production and meet other important criteria necessary for the taxation system in general..." [1]. Currently, the changes to the tax system proposed by scientists are partially reflected in the current tax system: agricultural producers can use taxation according to the single tax system (group 4 of taxpayers).

Supporting the previous opinion, I. Volokhova notes the rates of the single tax for the 4th group of payers and the high tax burden created for agricultural producers as a result. Among the promising options for improving the taxation of agricultural production, the author mentions "that special taxation regimes should take into account types of agricultural production that differ in terms of profitability; stimulation of the development of high-tech industries; preferential implementation of special taxation regimes for village-forming enterprises – producers of agricultural products; ensuring the stability and convenience of paying taxes on producers of agricultural products; introduction of payment by taxpayers of a single tax of 4 groups of resource payments (land tax, rent for special water use)" [2]. In part, the above proposals can be considered rational, but the focus of alternative taxation on rural enterprises is a return to significant relaxations of large agricultural producers with the leveling of the role and prospects of small and medium-sized enterprises, and the obligation to pay taxpayers of 4 groups of resource payments destroys the very essence of the preferential taxation system, to which belongs to a single tax applies.

The differentiated approach of taxation of different agricultural producers and types of enterprises is also emphasized by L. Tulush, who at the same time emphasizes the need for "the action of tax regulators on the rational use and protection of agricultural land. The state should be able to regulate the economic turnover of agricultural land with the help of tax levers" [3]. This proposal is completely rational and takes into account the peculiarities and specifics not only of agricultural production, but also of relations between the state and economic formations of this sphere of activity.

The team of authors consisting of N. Novak, S. Koval and O. Krukovska, as a result of studying the peculiarities of taxation of agricultural enterprises in Ukraine and in foreign countries, also came to the conclusion that "... Taxation of agricultural activity should be differentiated. It should be carried out depending on the priorities of the development of types of agricultural activity, the scale of production, taking into account the pace of transition to ecological and organ-

ic production and the efficiency of the use of biological resources, factors affecting the price of products" [4]. The mentioned proposal is relevant in the conditions of modern imbalances in the development of agricultural production, however, the direct mechanism for implementing such an approach remains unclear.

The American Farm Bureau Federation (AFBF) emphasizes the need to adjust the taxation of the agrarian sphere of activity, which in 2017 achieved the adoption of a law on reducing taxation, motivating its necessity by the conditions of uncertainty in which agricultural producers work [5]. Similar are the operating conditions of Ukrainian agricultural producers, and therefore they also need to revise the tax system in order to ease the tax pressure on them.

The need to change the tax system for agricultural producers is also caused by the presence of double taxation of their activities and the stimulation of price growth for agricultural products due to high tax rates.

In the transformational conditions of Ukraine's economy, in the crisis situation caused by the COVID-19 coronavirus pandemic, the relevance of approaches to the implementation of agricultural activities is being reassessed. Therefore, the purpose of the article is to analyze the situation with the state of affairs in agricultural production and to determine the criteria for its desired transformation in the sphere of action of the tax system in order to stimulate the development of this industry. To do this, it is necessary to find out the main indicators of the economic, social and fiscal efficiency of the functioning of enterprises in the agrarian sphere and to indicate the potentially relevant directions of development of the studied industry from the point of view of the transformation of the tax system.

THE FUNCTIONING OF THE AGRARIAN SPHERE FROM THE POINT OF VIEW OF ECONOMIC, FISCAL AND SOCIAL EFFICIENCY

The conditions of modern management require from the participants of market relations not a purely formal approach to activity, but an economically weighted and even creative one. It is implied that the manufacturer must take care of the performance indicators of his own activity, and the products produced by him, in order to attract the buyer, must be better than those presented by competitors on the market. At the same time, on the scale of the state, all agricultural production, as a separate industry, must demonstrate indicators of the appropriate level of efficiency in terms of three components: social, economic and fiscal.

From this position, the most expected for manufacturers is economic efficiency. It is she who signals the success of the activity over a certain period of time. For economic entities, the indicators of such results are the financial result before taxation, net profit (loss), the level of profitability of all activities and the operating room in particular (Fig. 1).

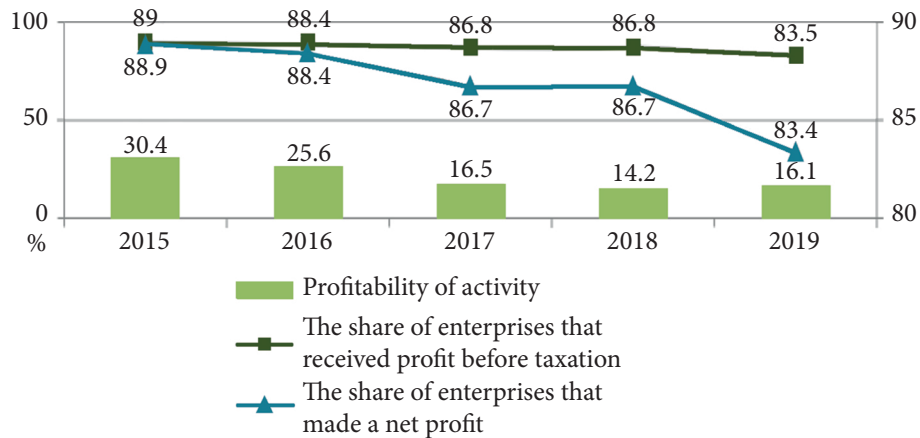


Figure 1. Dynamics of the main indicators of the economic efficiency of agricultural enterprises of Ukraine for 2015-2019

Source: [6]

Shown in fig. 1 data show a decrease in the profitability of agricultural enterprises for 2015-2019 by 14.3 percentage points. Separately by 5.5 percentage points the share of enterprises that operated with profit before and after taxation decreased. At the same time, it should be noted the corresponding increase in

the specific weight of business entities that suffered a loss. The reason for the declining indicators is not only the unstable political and economic conditions in the country, but also the level of profitability of agricultural products in the fields of plant and animal husbandry (Fig. 2).

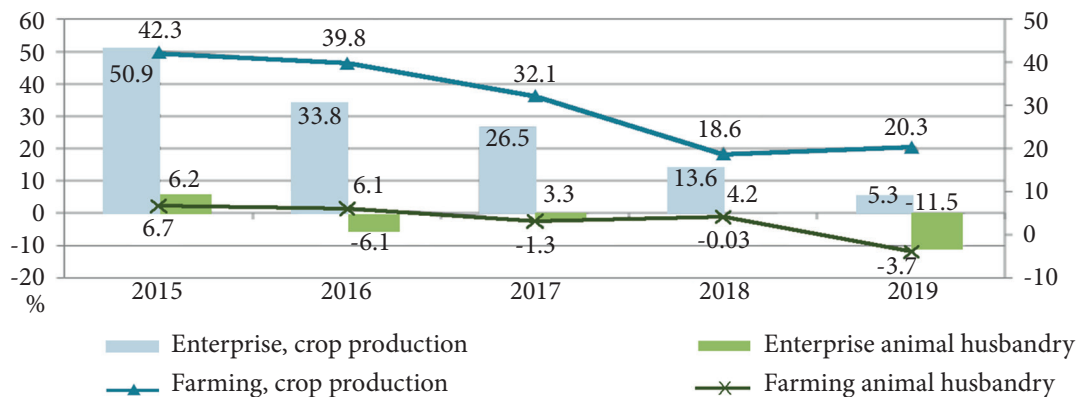


Figure 2. The level of profitability of crop and livestock products in agricultural enterprises and farms of Ukraine in 2015-2019

Source: [6]

First of all, it should be noted that crop production produced by agricultural enterprises and farms of Ukraine is characterized by a higher level of profitability than livestock production. At the same time, a decline was noted in both branches for 2015-2019: in crop production, the average level of profitability of products by enterprises decreased by 45.6% (in farms - by 22.0%), and in animal breeding - by 17.7% (in farms - by 10.4%). The lowest level of profitability in 2019 was noted for sugar beet - 15.4% for enterprises - 4.8% for farms, as well as for sheep and goats for meat: -39.7% for enterprises and 32.5% - farms.

According to the results of 2019, the most successful crop production by enterprises was the production of technical crops, in particular sunflower, with a

profitability level of 23.5%, and by farms - potatoes (profitability of 50.3%); from animal husbandry, the highest level of profitability - 20.6% for enterprises and 20.1% for farms - was recorded for milk. At the same time, the average level of profitability in crop production in Ukraine in 2019 was 20.3%, and in livestock production - 3.7% [6]. The available results clearly demonstrated the advantages of crop production over animal production, which certainly provoked intra-industry imbalances in development. It should be noted separately that the efficiency of the agrarian sphere of activity in terms of production of agricultural products from 2015 to 2019 underwent negative changes. The reason for this was the high level of the cost price of agricultural products, primarily the expenses that form it (Fig. 3).

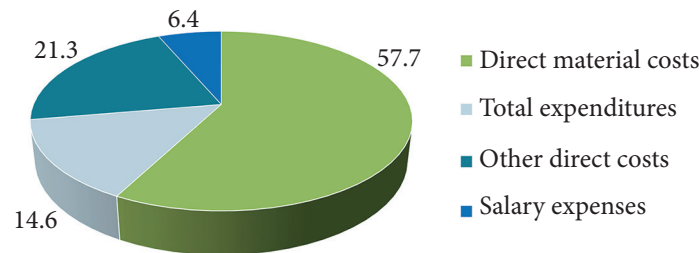


Figure 3. The structure of the production cost of agricultural products in Ukraine in 2019, %

Source: [6]

In 2019, as in previous years, the lion's share in the cost structure of the production cost is occupied by direct material costs, which include seeds, planting material and fodder (including purchased ones) – 19.7%, mineral fertilizers – 15 %, fuel and lubricants – 8.7%, fuel, energy and electricity – 1.6%. That is, the high cost of these components increases the cost of agricultural products and the costs of enterprises, which, accordingly, reduce the level of their incomes and profits. Separately, the level of investment attractiveness of the industry can be attributed to the consequent indicators of the economic efficiency of the functioning of the agrarian sector of the economy. However, even from this position, contradictory trends are noted: despite the fact that the level of capital investments involved in agriculture, forestry and fisheries in absolute terms increased from UAH 30.5 billion recorded in 2015 to UAH 59.1 billion in 2019, in

the total amount of capital investments in the state in relative terms, it decreased from 11.0% (2015) to 9.4% [6]. In addition, one of the basic conditions of negative changes in the investment of agrarian activity was the high level of taxation, the lack of benefits for investors and the lack of transparency of the tax system. The next component of the effectiveness of the functioning of the agrarian sphere is social effectiveness. Focusing on this indicator, one should mention such indicators as the average monthly wage by industry, the number of people employed in agricultural production, the level of income and expenditure of the rural population, indicators of deprivation, etc.

Material deprivation, which proves the inability of the population to meet basic needs, can be considered as a general and quite transparent result of the state's social policy. And in Ukraine, this indicator is much higher than in European countries (Fig. 4).

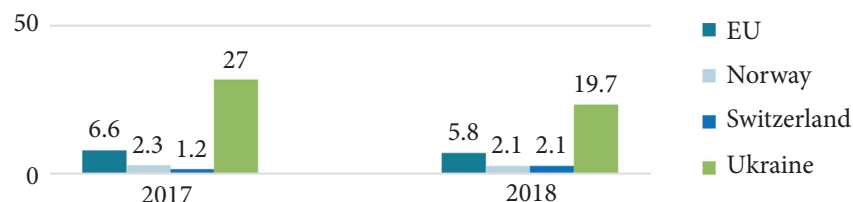


Figure 4. The share of the population with 4 or more signs of deprivation in the countries of the European space and in Ukraine in 2017-2018, %

Source: [7]

Data on material deprivation show that in Ukraine, as in most of the above countries, the situation has improved as of the end of 2018, but it still remains unsatisfactory in comparison with European countries. Based on the above data, we have, firstly, a high dependence of the well-being and solvency of the rural population on the level of wages, and secondly, significant amounts of hidden income, in the case of the rural population, from the management of personal peasant farms, which in most cases remain outside the scope of the tax system. In general, it should be noted that in Ukraine during 2015-2019, the number of employed population increased from 16.4 million people to 16.6 million people, of which 17.5% were employed in the agricultural sector in 2015, and in 2019 – 18.2%. That is, the social role of agrarian goods

production as an industry that provides employment to the population has strengthened in a certain way. At the same time, the number of employees working in the agricultural sector decreased by 0.9% during the studied period – from 9.6% in 2015 to 8.7% in 2019 [7].

In part, this can be explained by the increase in the volume of labor migration of the population, as well as the increase in the number of personal peasant farms that operate either without hired persons or informally. At the same time, it should be emphasized the decrease in the number of agricultural economic entities for the period 2015-2019 by 3,834 units, including a 0.4% decrease in both the number of enterprises (-3,495 units) and the number of individual entrepreneurs, which worked in this field (-7329 units) [8].

The intensification of production at large enterprises and the rather low level of wages also became the impetus for the reduction of the number of hired workers and those employed in the agrarian sphere of production (Fig.5).

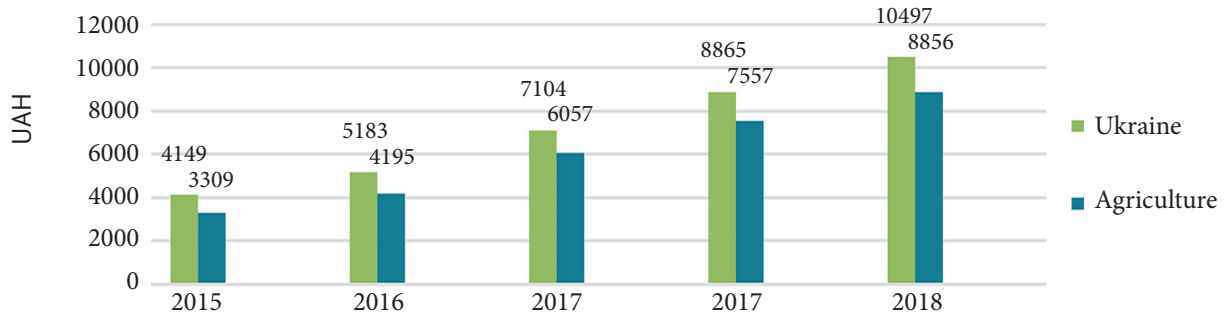


Figure 5. Average monthly nominal wages in Ukraine and in agriculture in 2015-2019

Source: [6]

The average monthly nominal wage in agriculture during the studied period was on average 17% lower than the national rate. And in this case, it is worth mentioning the seasonality of agricultural production, when a fairly common practice among farmers, especially in crop production, is to register workers and pay them wages only in certain periods that are active in terms of production technologies. Therefore, according to experts' estimates, the shadow sector in the agrarian sphere now amounts to 30 to 40% [9].

TRANSFORMATIONS OF THE TAX SYSTEM IN THE FIELD OF AGRICULTURAL PRODUCTION

An important indicator of the functioning of the agrarian sphere of activity is the level of income and the structure of expenses of households in rural areas. In particular, the share of the population and households with average per capita equivalent total incomes per month, lower than the average level of total incomes, the legally established subsistence minimum, and the actual subsistence minimum (Table 1).

Table 1. Dynamics of the specific weight of the rural population, which is outside the limit of key indicators of social security in Ukraine in 2016-2019, %

Population categories	Years			
	2016	2017	2018	2019
Population with average per capita equivalent total income, lower than:				
average level of total income	58.6	56.9	56.7	57.7
legally established living wage	3.9	3.3	1.8	1.3
actual living wage	51.7	36.3	31.5	29.5
Households with average per capita equivalent total income, lower than:				
average level of total income	54.8	54.2	54.8	56.7
legally established living wage	3.4	3.0	1.6	1.6
actual living wage	48.2	34.2	29.2	29.1

Source: [7]

The situation in rural areas shows the following results: as of the end of 2019, every third person, including the household, had incomes below the actual subsistence minimum and almost 60% – below the average level of total incomes. And one of the factors of this situation is the level of wages in agriculture (Fig. 4), as well as hidden employment and, accordingly, shadow incomes. In the structure of total household incomes, almost 89% are monetary incomes, of which more than

50% are wages. And in the structure of expenses, on average over 5 years, 92.5% are consumer expenses.

Focusing on the fiscal aspects of the efficiency of the functioning of the agrarian sphere of production, it would be appropriate to consider the level of tax payments to the budgets of different levels by agricultural enterprises. Therefore, we can trace the role of the agricultural sector in filling the budgets of different levels (Table 2).

Table 2. Dynamics of tax revenues from taxpayers in the agrarian sector of budgets of various levels in 2018-2019, UAH billion

Type of receipt	2018	2019	Growth rate, %
Income tax	1.4	1.2	-0.15
VAT	19.5	21.0	+7.6
VAT refund	27.7	3.8	-86.2
Excise tax	4.6	0.02	-99.6
Rent for the use of subsoil	17.4	1.5	-91.4
Property taxes	4.1	4.9	+19.5
Ecological tax	0.07	0.08	+14.3
Personal income tax and military service	21.3	22.2	+4.2
Single tax	5.4	5.8	+7.4
In total	53.6	57.1	+6.5

Source: [11; 12]

As of the end of 2019, there was an increase in the amount of taxes paid in the agricultural sector for VAT (+UAH 1.5 billion), property tax (+UAH 0.8 billion), environmental tax (+UAH 0.01 billion), taxes from labor income (personal income tax and military service) - +0.8 billion

UAH and from the single tax - +0.4 billion UAH. As for all others, significant downward trends are noted for them, which indicates that the tax burden on agribusiness is quite significant. The proof of this is the rating of branches of the national economy by the level of tax burden (Fig. 6).

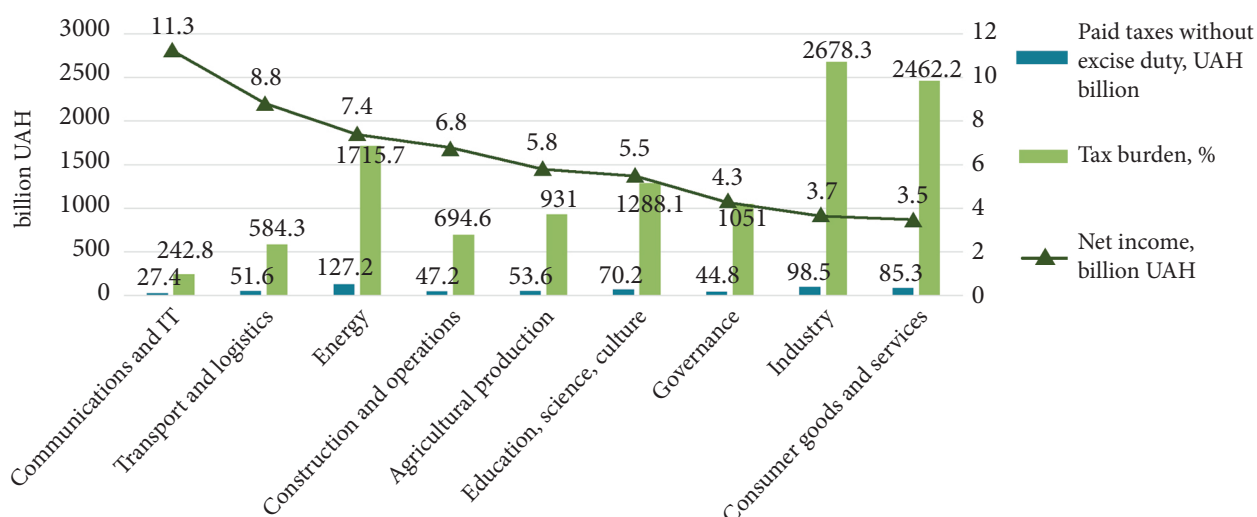


Figure 6. Gradation of branches of the national economy by the level of tax burden in 2018

Source: [12]

From the given rating, we can see that agricultural production ranks fifth with a rating of 5.8%. However, according to the level of net income, it is placed behind such industries as industry and consumer goods and services, although the studied indicator for them is much lower. In addition, a significant share of the tax burden is made up of indirect taxes, in particular VAT. This proves the need to review the conditions of the tax system regarding the mechanisms of its functioning in the agricultural sphere of activity and to find more loyal conditions for their implementation, which would contribute to the development of agricultural production both in the near future and in the long term.

Thus, we can assert that the effectiveness of the functioning of the agrarian sphere of activity in today's transformational conditions requires significant adjustment. And it should be connected, first of all, with the revision of the conditions of the functioning of the tax system in order to strengthen the action of stimulating levers.

Based on the obtained and highlighted results, it is necessary to single out the following areas of transformation of the tax system in the field of agricultural production:

- introduction of a progressive scale of VAT depending on the type of products produced;

– strengthening of environmental taxation for business entities that do not conduct eco-oriented activities;

– differentiation of taxation systems for agricultural producers depending on their size and production volumes (Fig. 7).

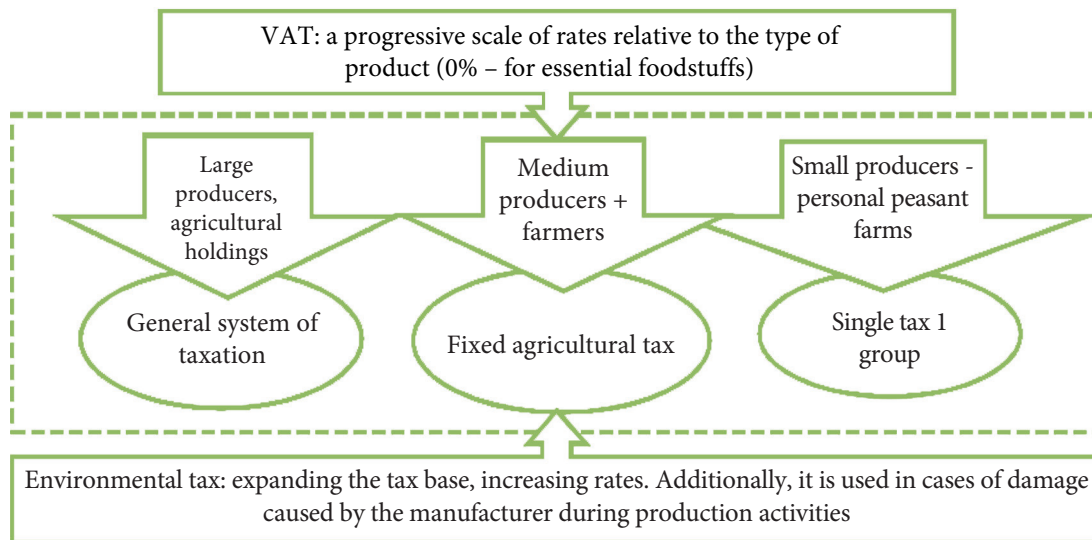


Figure 7. Proposed transformations of the tax system in order to stimulate agricultural production

The first step to easing the tax pressure on agricultural producers should be a review of the current VAT rates on agricultural products. That is, it is advisable to exempt the category of products related to basic food products from VAT taxation, taking into account the indicator of material deprivation of the population of Ukraine. After all, the functioning of VAT contributes to the increase in the price of goods and products at each stage of their sale.

Separate attention should be focused on environmental taxation. Cases where agricultural producers, practicing intensive cultivation technologies without observing crop rotation norms, actively use mineral fertilizers that have a negative effect on flora and fauna have become more and more frequent in agricultural production. And in this case, more aggressive environmental taxation (expansion of the tax base and increase in tax rates) will become a prerequisite not only for the careful use of harmful substances in the production process, but also for improving the quality of products, increasing the level of their environmental friendliness and optimizing the environment. Similar trends are trending in the tax systems of foreign countries for the post-pandemic period.

Gradation of taxation systems for agricultural producers depending on their size would also be rational. In particular, it is advisable to tax large agricultural enterprises (type of agricultural holdings) according to the general system, medium-sized enterprises and farms - according to the system of fixed agricultural tax, and small and micro-enterprises, which should also include personal peasant farms – according to the alternative system of the single tax (group 1). Given the

imbalances of development, it is advisable to introduce tax holidays and reduced tax rates for producers practicing activities in unpopular and unprofitable areas.

CONCLUSIONS

The need to transform the tax system in the entire national economy of Ukraine has been ripe for a long time, especially in agricultural production. And the conditions of the pandemic and the consequences of quarantine restrictions only deepened the existing crisis phenomena. During the period 2015-2019, the agricultural sector of Ukraine demonstrated declining performance indicators in economic, social, and fiscal terms. However, the situation can be rectified by distinguishing between manufacturers according to their size, the type of products they produce, and the field of activity. In particular, relaxation for medium-sized forms of business in the form of a fixed agricultural tax and inclusion of personal peasant farms in the form of small producers as single tax payers of group 1 to the cohort of taxpayers will expand their opportunities and create prerequisites for the formation of a market for ecologically clean agricultural products of high quality. As for large manufacturers, they are left with the general taxation system.

Separately, it is proposed to review the conditions of functioning of VAT and environmental tax in agricultural production. As for the first, it is worth applying a progressive scale of rates, where the taxation of essential food products will be carried out at 0%. Environmental taxation should be made tougher and higher rates should be applied to producers who cause harm during production activities.

The proposed transformation data will contribute to the restoration of rational activity stimulate the development of agricultural production aimed at the ecological production of high-quality in the small and medium segments, as well as products.

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Трансформація податкової системи України з метою сприяння розвитку аграрного виробництва

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Анотація. Аграрна сфера в Україні є однією з основних сфер діяльності та належить до пріоритетних складових національної безпеки країни. Однак на теперішньому етапі розвитку ця сфера працює зі значними невідповідностями, а продукція, що виробляється, не завжди є конкурентною на зовнішніх ринках в силу невідповідності стандартам якості іноземних держав. Покращити стан справ у напрямку активізації аграрної діяльності можна за допомогою стимулюючих важелів податкової системи. Оскільки високе податкове навантаження, яке надає суб'єктам господарювання множинність податків, зменшує кількість їх фінансових ресурсів, які потенційно могли б бути використані задля оновлення виробничих потужностей, удосконалення технологій виробництва та підвищення рівня його інноваційності тощо. Крім того, непрямі податки, зокрема податок на додану вартість (ПДВ), значно збільшують вартість виготовленої продукції і знижують рівень її конкурентоспроможності на внутрішніх ринках. Таким чином, метою статті є аналіз ситуації в аграрному виробництві та визначення факторів його бажаної трансформації у сфері функціонування податкової системи задля стимулювання сприяння розвитку даної галузі. Відтак, потрібно з'ясувати основні показники економічної, соціальної та фіскальної ефективності функціонування підприємств аграрної сфери й позначити потенційно актуальні напрями розвитку досліджуваної галузі зі сторони трансформації податкової системи. У статті розглянуто сучасний стан функціонування аграрного виробництва в Україні з позиції економічної, соціальної і фіскальної ефективності. Наведено актуальні в умовах перехідної економіки України напрями трансформації податкової системи, що у найближчому часі та на тривалу перспективу спонукають галузь до якісно нового розвитку

Ключові слова: аграрне виробництво, економічна ефективність, соціальна ефективність, фіскальна ефективність, сільське населення, єдиний податок, фіксований сільськогосподарський податок
