Exploring agricultural taxation in Europe

Hennie van der Veen
Harold van der Meulen
Karel van Bommel
Bart Doorneweert

Projectcode 30816

April 2007

Report 2.07.06

LEI, The Hague

The Agricultural Economics Research Institute (LEI) is active in a wide array of research which can be classified into various domains. This report reflects research within the following domain:

- ☐ Statutory and service tasks
- ☑ Business development and competitive position
- ☐ Natural resources and the environment
- ☐ Land and economics
- ☐ Chains
- ☐ Policy
- ☐ Institutions, people and perceptions
- ☐ Models and data

Exploring agricultural taxation in Europe
Veen, H.B. van der, H.A.B. van der Meulen, K.H.M. van Bommel and B. Doorneweert
The Hague, LEI, 2007
Report 2.07.06 ; ISBN/EAN 978-90-8615-145-5
Price €21.50 (including 6% VAT)
207 p., fig., tab., app.

This report describes the tax systems in ten European countries, focusing on agriculture. It not only deals with income tax, it also describes other taxes such as gift and inheritance tax and Value Added Tax. This information leads to an analysis of the impact of taxation on the competitive position of Dutch agriculture.

Orders:
Phone: 31.70.3358330
Fax: 31.70.3615624
E-mail: publicatie.lei@wur.nl

Information:
Phone: 31.70.3358330
Fax: 31.70.3615624
E-mail: informatie.lei@wur.nl

Contents

Preface

This report has been prepared on behalf of the Dutch Ministry of Agriculture, Nature Management and Food Quality and shows us agricultural taxation in ten European countries. The descriptions of the individual countries contribute to a comparison of the systems and their impact on the relative competitive position of Dutch Agriculture.

The research was conducted by Hennie van der Veen, Harold van der Meulen, Karel van Bommel and Bart Doorneweert, all working at the Dutch LEI (Agricultural Economics Research Institute). They benefited from comments and discussions with the advisory committee consisting of Peter van de Weegh, Gerrit Meester and Jacques Urselmann from the Dutch Ministry of Agriculture, Nature and Food Quality, Sjaak Jansen from the Erasmus University of Rotterdam, Michiel Spanjers from the Dutch Ministry of Finance, Pascale van Duijse from the Dutch Ministry of Housing, Spatial Planning and the Environment and Arjen Sukkel of the Dutch Association of Accounting and Tax Consulting offices (VLB).

This study also acknowledges the input of foreign experts. We would therefore like to mention:

- Belgium: Danny Immegeers (Federal Public Service Finance) and Dries Nuytten (SBB accountants and tax consultants);
- Czech Republic: Ladislav Jelinek, Tomas Medonos and Tomas Doucha (Vuze: Research Institute of Agricultural Economics);
- Denmark: Lars Eghøj (Danish Agriculture);
- France: Harm Hof (Europe Ruris) and Christian Jacquot (Bureau Etudes Fiscales);
- Germany: Enno Bahrs (University of Göttingen) Rüdiger Parsche and Manfred Schöpe (IFO) and Gerhard Reintzsch (Federal Ministry of Food, Agriculture and Consumer Protection);
- Hungary: Marianna Balogh (Agricultural Economics Research Institute (AKI)) and Ildiko Nagy;
- Poland: Adrian Maczura and Paweł Rutowicz (Rödl and Partner) and René Segeren (Polagricon);
- Spain: José Rodriguez and Erik Kavelaars (IVC-consultants);
- United Kingdom: Peter Prag and Roger Gibbard (University of Reading).

Dr. J.C. Blom
Director General LEI

Summary

This report originates from the constant need for information about the competitive position of Dutch agriculture. One of the factors influencing the competitive position is the tax system. In the Netherlands, the tax system is fairly general, while other countries may have more specific agricultural facilities or other favourable facilities. This research describes the tax systems in ten European countries (the Netherlands, Belgium, Czech Republic, Denmark, France, Germany, Hungary, Poland, Spain and the United Kingdom (UK)) and analyses the effect of differences between the countries on the competitive position of Dutch agriculture. In this study we assume that the competitive position of agriculture is supported if:

- the tax burden is lower;
- innovation and investments are supported;
- larger farms, that have in general lower cost prices than smaller farms, are discriminated positively, leading to structural development and efficiency of scale;
- older farmers are triggered to leave the sector;
- successors have to pay lower prices for a farm.

It should be noted that such effects of taxes can partly be offset by market responses (e.g. higher prices of land and quota).

Income assessment

Compared to the other countries analysed, the Netherlands has the largest percentage of farms with an economic size of more than 100 ESU[1]. Although in the Netherlands, only 2% of the farms is larger than 100 ha, expressed in economic size, 32% of the farms is larger than 100 ESU. This is the highest percentage of the analysed countries. Of the new EU countries, Poland and Hungary have many small farms; while in the Czech Republic the percentage of large farms (> 100 ESU) is even more than the percentage in Spain.

Most agricultural production takes place on the family farm, either as a partnership or as a one-man business. In the Netherlands and the UK, the main business form is the partnership. Only in the Czech Republic, the legal person is rather important. Taxation at partnership level is more favourable than taxation on a single entrepreneur due to the progressive tax rates and other tax facilities available per entrepreneur.

In the Netherlands and most of the other countries analysed, the personal income tax is the main tax system for the agricultural producers. Exceptions are the Czech Republic (corporate income tax main system), Denmark (additional company scheme), Poland (agri-

[1] The ESU (European Size Unit) indicates the financial potential of the holding in terms of the margins which might be expected from crops and stock and is a better measure to compare the size of the farms.

cultural property tax main taxation) and Hungary (broad range of systems, especially favourable for the smaller farmers).

The Netherlands is the only country with full accounting rules for all farmers. In most of the other countries, the larger farms are obliged to have accounts and simplified accounting or estimation of the profit can only be applied by small farmers. Not all rules for normatively assessed income are even favourable. However, in all countries (except Poland), the normative assessment is optional, which implies that applying the normative assessment is based on a free choice and consequently will be favourable in most cases. Analyses based on the FADN-RICA database show that in most countries the norms for the normative assessment lead to lower assessed incomes than the actual ones. Although normative assessement directly reduces the tax burden, it discourages farm enlargement, which does not support the competitive position. The remaining part of the analysis studies the farms applying accounting.

In all countries, the EU subsidies are included in the fiscal income if accounting is applied. In Belgium, a special tax rate can be applied. In other countries, if the fiscal income is estimated, the subsidies are not included in the fiscal income, although they might be included in the fiscal norms.

The Netherlands offers a general income averaging facility to smooth the taxable income over three years, although due to the high threshold, the relevancy of this facility is limited. The UK and France also offer such a facility, which is specific for farmers in these countries. In Denmark, the valuation of the stock offers a smoothing facility while the company scheme has a flat rate, which makes a flattening scheme redundant.

Compared to the other countries analysed, the rules for loss transfer are quite generous in the Netherlands. Carry back is allowed and carry forward was unlimited until the year 2007, when a limit of 9 years was introduced for the personal income tax. No additional rules exist for loss transfer. Carry back is not allowed in many of the other analysed countries, or the period or conditions are more limited. A number of countries also offer an unlimited carry forward.

In most countries, just as in the Netherlands, more than one depreciation method is allowed, although buildings are usually depreciated linearly. The depreciation method mainly influences the timing of the depreciation; degressive depreciation methods (as allowed in the Netherlands and many other countries) offer a liquidity advantage. In the UK, the term depreciation does not exist, but it is labelled capital allowance.

In most countries, except for France and the Czech Republic, purchased production rights are placed on the balance sheet. Besides the Netherlands, Belgium, Germany, Hungary and Spain all offer the opportunity to depreciate on production rights. This might seem beneficial for these countries, but in practice, the depreciation opportunity is (at least partially) incorporated in the market price of the production rights.

Capital gains are usually included in the ordinary taxable income. Belgium offers special rates for capital gains and France and Spain offer special rates for assets held longer than a certain period. In the Netherlands, the agricultural allowance limits the taxation on capital gains on land up to a certain limit and the reinvestment reserve postpones taxation on other capital gains. Capital gains on land are exempt for farmers liable to personal income tax. Many countries offer exemption for land or a kind of investment reserve.

Farm quitting might lead to taxation of capital gains. However, many countries (the Netherlands, Belgium, Denmark, France and Germany) offer the opportunity to transfer the farm at book value, leading to postponement of taxation. Additionally, the Netherlands offer a small discontinuation allowance, while Belgium offers a special tax rate. In Germany, old and disabled farmers get a tax reduction of 50% while a special deduction method has been created to determine the taxable income on the profits related to the selling or closing down of an enterprise. In the UK, no capital gains tax is due in case of the death of the entrepreneur.

Allowances, credits and rates of taxes and social security and other compulsory contributions

In the Netherlands, a broad range of investment incentives exists: free depreciation of environmental investments, accelerated depreciation for starting entrepreneurs, an investment allowance, the energy saving investment allowance and the environmental investment allowance. Incentives related to energy saving or environmental investments can also be found in the UK and Spain. More general investment incentives can be found in all countries except for Denmark. Although the special tax treatments to encourage certain types of investment might seem beneficial for the farmers in the Netherlands, it should not be forgotten that these facilities are not really a direct benefit in all cases(OECD, 2005). Some of these investments might be obligatory due to EU-measures. Countries that provide compensation for these investments consequently diminish the costs for the farmers compared to farmers in other countries. The investment incentives therefore only contribute to the competitive position of Dutch farmers in case of obligatory European measures. In case of voluntary investments, the incentives compensate for the additional costs.Under a tax credit system, everyone is entitled to reduce their taxes by the same amount, while with a system of tax allowances, individuals taxed at higher marginal rates derive greater absolute benefits than those at lower rates. Tax credits are consequently beneficial for low-income farmers, while allowances are more beneficial for high-income farmers. Compared to the other analysed countries, the basic tax credit in the Netherlands is rather limited, especially for farmers that have a higher marginal tax rate.

The Netherlands offers a broad range of additional tax credits. For self-employed persons, some allowances exist. Belgium and France also offer general facilities to entrepreneurs. In most countries, deductions exist for labour and/or children.

In the Netherlands, the maximum tax rate of personal income tax is 52%. This includes social security contributions (except for the medical care contribution). In the other countries, the maximum personal income tax rates range from 32% in the Czech Republic to 59% in Denmark. In a number of countries (Belgium, Germany and Hungary) additional regional income taxes are levied.

Social security contributions are usually calculated per person and/or as a percentage of the income. Some of the countries where social security contributions are based on income have lower and upper limits for the taxable base of the social security contributions (Denmark, UK, France, Spain and the Czech Republic). In countries where (part of) the contributions are calculated per farmer (Germany, UK, France and Poland), low-income farmers still have to pay social security contributions.

The Netherlands does not have special old age provision for farmers. However, there are general facilities, such as the self-employed persons pension allowance and deduction of private pension premiums. Germany, France, Poland and Spain offer a special old age provision for farmers.

Table 1 shows a summary of the facilities in the income tax system, categorized by whether they support the agricultural sector since they:

- reduce the tax burden;
- enhance the structure of the agricultural sector;
- support investment and R&D.

Table 1 Supportive facilities income taxation

Country	Tax burden	Structure	Investment & R&D
Netherlands	- Averaging - Favourable loss transfer - Agricultural Allowance - Partnership - Favourable rates and basic allowances/tax credits	- No normative assessment for smaller farmers - Continuation of book values	- Reinvestment reserve - Environment related investment facilities - Investment allowance - Accelerated depreciation starting entrepreneurs
Belgium	- Special rate EU subsidies - Normative assessment	- No normative assessment for smaller farmers - Continuation of book values - Special tax rate in case of quitting farming	- Roll-over relief - Energy saving - Accelerated depreciation small enterprises
Czech Republic	-	-	- Investment allowances
Denmark	- Company scheme - Allowance for capital gains	- No normative assessment for smaller farmers. - Continuation of book values	- Extra depreciation R&D
France	- Quotient system - Deduction for risks - Facilities for capital gains - Normative assessment - Favourable rates and basic allowances/tax credits	- Continuation of book values	- Investment deduction
Germany	- Normative assessment	- Continuation of book values - Selling farms: 50% reduction in case of old or disabled farmers and - 'Fünftelregelung'	- Investment reserve - Investment incentives - Advanced depreciation (small farms)
Hungary	- Normative assessment	-	- Extra depreciation some assets

Table 1 Supportive facilities income taxation (continued)

Country	Tax burden	Structure	Investment & R&D
Poland	- Agricultural land tax - No taxation of EU subsidies	- No normative assessment for smaller farmers.	
Spain	- Special rate for capital gains - Normative assessment for smaller farms	-	- Investment credits environmental investments - Credits (R&D and export activities)
UK	- Averaging - Taper relief - Partnership - Favourable rates and basic allowances/tax credits	- No normative assessment for smaller farmers.	- Roll-over relief - Extra capital allowances (environemtal investments) - Higher first year allowance for other investments

The analysed countries can roughly be divided in three groups:

- Countries that have a supportive tax system by offering facilities to reduce the tax burden with various investment incentives and without special favourable rules for small farms: the Netherlands, Belgium, France and the UK;
- countries that have a system that is moderately supportive: Denmark, Germany and Poland;
- countries that do not have a very supportive tax system: Spain, Hungary and Czech Republic.

Other taxes

For the continuation of farms, the transfer to spouses or children after the death of the entrepreneurs or the transfer of the farm during life is a very important phase. At this stage, gift or inheritance tax might be due. In the Netherlands, for enterprises with structurally low returns (for example farms), the continuation value based on expected returns forms the basis for the valuation. In most of the other countries, the fair market value is applicable. Additionally, of the continuation value, a large share is exempt from taxation while general allowances (large for spouses, but rather limited for children) further reduce the tax amount due. Many countries offer specific allowances for enterprises or farmers. All countries, except for Hungary, offer general allowances. The UK and France have the highest marginal tax rates while Poland and the Czech Republic have the lowest. Compared to other countries, the facilities for the taxation around farm take-over in the Netherlands are comparable with many of the countries studied. Many countries offer facilities for (small) enterprises or farms that reduce or prevent gift or inheritance tax. The UK offers by far the most favourable system. Countries that have a less favourable gift and inheritance taxation are Denmark (high valuation, minimal exemptions) and France (high valuation, no exemptions).

All countries also levy a tax on property. The new EU countries, Poland, Hungary and the Czech Republic have separate taxes for buildings and land. In the Netherlands, Czech Republic, Denmark, France and the UK, there are exemptions for agriculture. In the

Czech Republic, agricultural land is exempt for the first 5 years of usage. In France, agricultural land is exempt and in Denmark, taxation on agricultural land is reduced. In the UK, all agricultural land and buildings are exempt. In the Netherlands, the rental value of the home is included in the personal income for the personal income tax.

In the Netherlands, the net wealth tax was abolished with the introduction of the new fiscal system in 2001. However, net wealth is still taxed, but then as a component of the personal income tax. All business units and owner-occupied dwellings are exempt and there is a basic allowance. Additionally, land rented to successors is usually exempt from wealth taxation. Only France and Spain also have a kind of wealth tax, although in both these countries business assets are also exempt.

All countries levy a property transfer tax, although in many cases exemptions exist for businesses, land or relatives.

Apart from Denmark, all countries have a reduced Value Added Tax (VAT) rate that is applicable to agricultural products. Dutch farmers are exempt from full taxation, but may opt for full taxation. Other countries offer comparable facilities. In all countries, except for Belgium, excise duty is levied on agricultural diesel.

Environmental taxes are levied in all countries except for Hungary, Poland and Spain. In the Netherlands, Belgium, Denmark and France, energy intensive sectors are (partially) exempt from energy taxes.

Discussion

Comparing tax systems is very complicated. Farms within a country are not all identical, but differ in size, profitability, capital intensity, etcetera. The impact on the competitive position of farmers consequently differs between farmers within one country. Although it is not possible to give a ranking of all countries, a broad division in three categories was possible.

In this report we focused on the tax burden and we did not look at how government spends the money. However, we are aware that the tax burden only tells one part of the story. The other part is how the tax money is spent. The agricultural sector might for example benefit from education, infrastructure, etc.. Moreover, taxation can also be used to stimulate or discourage certain behaviour. These aspects of taxation are not included in this analysis.

The report describes a large number of special agricultural facilities, which usually exist for a rather long period. In that way, they have never been subject to a check for state aid. This report shows that almost all countries have facilities that focus on the agricultural sector especially. It might be interesting for the Directorate General for Competition of the EU to investigate whether these facilities disturb a good competition in the agricultural sector.

Conclusions

The largest differences between the countries analysed exist in the taxation of income. In the Netherlands, the investment incentives, the agricultural arrangement and the rules for loss transfer are particularly beneficial and places this country in the category of countries with the most supportive tax system. Some countries offer more favourable rules for the taxation of capital gains. However, the largest differences exist in the calculation of the income. All Dutch farmers are obliged to have accounts, while other countries offer normative ways to assess the income. In all the countries that offer normative assessment (except Poland), it is a voluntary option, which implies that applying the normative assessment is based on a free choice and consequently will be favourable in most cases. The other facilities analysed generally offer comparable rules and many exemptions exist for (small) entrepreneurs or farmers.

1. Introduction

This report originates from the continuous need for information about the competitive situation of Dutch agriculture. The competitive position can be described at various dimensions. De Bont and van Berkum (2004) give an impression of the developments of the production and markets, employment and financial results of agricultural companies. However, taxation is not included in their report, while this might be a substantial factor affecting the competitive position. In the Netherlands, the tax system is fairly general, while in other countries there may be more specific agricultural facilities or other favourable facilities.

The aim of the current research is to provide information about the tax systems in Europe and to analyse whether and how the tax systems affect the competitive position of Dutch Agriculture.

Competitive position

Taxation influences people's decisions as will also be the case in agriculture. Especially income taxation influences production and investment decisions and consequently farm structure. Farmers will try to get maximal rent on their productions factors. In this study we assume that the competitive position of the agricultural sector in a country is improved if:

- The tax burden is lower, as this directly reduces cost price and cash outflows and leaves more possibilities for investment and farm enlargement (and hence lower cost prices). This is especially important if credit markets are not developped very well and profitability is rather low in relation to capital invested.
- Innovation and investments are supported.
- Larger farms, that have in general lower cost prices than smaller farms, are discriminated positively. This lead to structural development and efficiency of scale.
- Older farmers (often owners of smaller farms) are triggered to leave the sector relatively fast as this frees land and quota for other farmers that would like to grow to reduce their cost price. This is extra important if rental markets are not working perfectly[1].
- Successors have to pay lower prices for a farm as this leaves capital for enlargement. However, too much support for potential successors might lead to a situation where not economically viable farms are taken over, slowing down the process of scale optimalisation.

[1] In the Netherlands, we also see that retiring farmers postpone investments, delaying the development of the sector (van der Veen et al., 2001).

Although this list looks very clear, it is not easy to assess effects of tax measures on these aspects. Some might have both postive and negative (side-)effects. In the analysis we will distinguish between (groups of) measures that are supportive to the competitive position, moderately supportive and not supportive.

It should be noted that such effects of taxes can partly be offset by market responses (e.g. higher prices of land and quota).

Methodology

This research includes in total ten European countries:

- The Netherlands;
- Belgium;
- Czech Republic;
- Denmark;
- France;
- Germany;
- Hungary;
- Poland;
- Spain;
- United Kingdom (UK).

Firstly, information was collected about the individual tax systems, which can be found in the appendices. Table 1.1 outlines the elements included in the description per country. Besides the description of the income tax (section A), the taxation of property (section B1), wealth (section B2), inheritance and gifts (section C) are included. Section D describes other relevant taxes such as property transfer taxes and Value Added Taxes (VAT). The example (section E) is primarily included in the description to illustrate how the tax systems work.

In the description per country, specific agricultural facilities are not mentioned in a separate paragraph, but in the section that is related to the facility. For example, the Agricultural Allowance in the Netherlands is a specific agricultural facility, which is applicable to reduce taxable capital gains on land. Consequently, it will be mentioned in section A5.

Some countries have many different administrative levels (supra-national, national, regional and local). Since our study will not be too detailed, the description of the tax systems will mainly focus on the national level. Relevant regional and local levies and taxes will be briefly mentioned. The reference year is 2004.

Table 1.1 Outline of description of the tax systems

A	Tax on income, profits and capital gains:	
	1.	Main tax system (income or corporate tax);
	2.	Method of income calculation;
	3.	Averaging of income and loss transfer allowed?;
	4.	Depreciation and investment incentives;
	5.	Capital gains tax (general income/special rules/allowances);
	6.	Allowances and tax relief;
	7.	Tax rates (including social security and other obligatory contributions).
B1	Tax on property:	
	1.	Object of taxation;
	2.	Valuation;
	3.	Allowances and tax relief;
	4.	Tax rate.
B2	Tax on wealth:	
	1.	Object of taxation;
	2.	Valuation;
	3.	Allowances and tax relief;
	4.	Tax rate.
C	Inheritance and gift tax:	
	1.	Valuation;
	2.	Allowances and tax relief;
	3.	Tax rate.
D	Other:	
	1.	Transfer tax;
	2.	Value Added Tax (VAT);
	3.	Excise duty;
	4.	Environmental taxes;
	5.	Other.
	6.	Example

To enhance the quality of the report, foreign experts provided us with additional information and reviewed the description of the country involved. They checked whether the information was correct and complete. In particular, specific agricultural facilities are usually not mentioned or described in detail in the general documents on taxation.

Overview of the report

After the process of collecting and reviewing, a comparison was made using the same subjects as shown in table 1.1. As our focus was on the competitive position of the Netherlands, the comparison was made from the point of view of the Netherlands and we concentrated on the larger farms. For a good understanding of the tax systems and the impact on the competitive positions of the countries, background information about agriculture in the countries analysed is provided in chapter 2. Chapter 3 presents the comparison of the income taxation, while the other taxes are discussed in chapter 4. In chapter 5 we discuss the value of the results and present our conclusions. The appendices show a detailed description of the individual tax systems.

2. The agricultural situation

2.1 Characteristics of agriculture in the analysed countries

In the Netherlands, there is a tendency towards fewer and bigger farms due to environmental measures and scale optimalisation. The agricultural sector is characterised by a high intensity of production. Due to urbanisation the sector faces high land prices, especially near urbanised areas. The sector has developed a number of sidelines in the rural areas such as recreation (for example mini camping sites, riding schools) and nature conservation (management areas, hedgerow management). Environmental protection is very important. This has led to a reduction of phosphate production per animal per year (EFAC, 2000). There is a tendency to reduce the number of special fiscal agricultural facilities in favour of more general ones.

In Belgium, the total size of the agricultural area steadily declined until 1990, but gradually increased thereafter owing to the more stringent manure standard for animal fertilisers. Farmland on which the fertilisers may be deposited therefore became highly attractive in financial terms (CLE, 2004). Belgium's most productive farmland lies north of the Meuse and Sambre rivers. Centered in Hainaut and Brabant provinces, it has been developed by centuries of intensive cultivation and heavy fertilizing and by the recent introduction of modern methods and machinery. Crop yields are among the world's highest. From the generally small, prosperous farms of this region comes the bulk of Belgium's agricultural produce.

The current size structure of Czech farms is the result of the privatisation programme including land reform (implemented between 1992 and 1994), the decollectivisation of co-operatives and the privatisation of state farms (European Commission (Directorate-General for Agriculture), 2002). On 1 May 2004, the Czech Republic joined the European Union. Important features of the Czech tax system have been harmonised with EU tax law, including direct taxes, VAT and excise duties (Eurostat 2004).

For centuries, agriculture has been the main industry in Denmark and even though the number of people employed in the agricultural sector has steadily declined, farming still plays a vital role in Danish society. Danish agriculture has always been at the forefront of the development and farmers as well as the food industry have been quick to apply the newest and best technology and the latest research results. The products are characterised by their high quality, which is only achieved through good workmanship and great professionalism, both on the farms and in the food companies. Danish farmers tend to have a high debt ratio (www.landbrugsraadet.dk).

In France, the natural conditions are very favourable for agriculture. This explains the deep French rural tradition and the number of farms. Agricultural production is not uniformly distributed across the national territory. The regions of the north and west contain most of the farmland, the largest farms and the bulk of production and are consequently now encountering the same problems of environmental management as other regions of northern Europe. Conversely, the south/south-eastern half of the country contains most of the mountain areas and less-favoured areas, and thus suffers from low agricultural incomes and population density (Vial, 2001). To encourage young farmers to set up a business, some settlement subsidies and early retirement pensions are granted to improve the pyramid of ages. These measures also aim to prevent rural desertification in some areas and to maintain or improve rural areas (EFAC, 2000).

Post-unification changes in the political, economic and legal frameworks led to major structural changes in East German agriculture. While West Germany continues to be dominated by relatively small family farms, East German agriculture is dominated by farms with an average acreage of more than 500 ha. Moreover, there is a wide variety of legal forms, for example family farms, partnerships, corporate farms, stock companies and cooperative farms. The structural evolvement process is still highly dynamic (Lissitsa and Balmann, 2003).

Hungary's land privatisation programme included the privatisation of state farms, the restructuring of the ownership of collective farms and the compensation of expropriated owners. Hungary's land privatisation programme has generated a great diversity in the legal status, size and ownership of agricultural holdings. Small farms are located with their plots around the villages. The greater the distance from the homes, the bigger the fields. In Hungary, small farms are exempt from certain taxes, so there is an incentive to register several farming operations within one family, even if the land is cultivated as a unit. As in all other new EU countries, agriculture in Hungary faced deterioration in its terms of trade since the beginning of transition. The unfavourable development in the relative prices could have been offset by the agricultural sector through an increase in its efficiency. However, such attempts have often been hampered by lack of capital leading to the use of inappropriate machinery and equipment (European Commission, Directorate-General for Agriculture, 2002).

Poland is characterised by great biological diversity and a huge variety of natural habitats and natural landscapes. Farmland productivity is much lower than that in the EU-15 due to the soil quality and the climate as well as a much lower usage of agricultural inputs (mineral fertilizers, plant protection substances). A significant number of farmers, in particular those owning small farms, use traditional methods of agricultural production, mainly to ensure food supplies for their families. Animal production is mostly characterised by low intensity, which is not harmful to the environment. Due to the low profitability of agricultural production and difficulties in selling agricultural commodities produced on farms, there was a growing tendency to leave agricultural land fallow and idle. At present, farmland is utilised by numerous entities varying with regard to ownership, farm size as well as type and scale of production. Enlargement of the existing farms is a permanent process supported by preferential credits (Ministry of Agriculture and Rural Development, 2004/2005).

Compared with other West European countries, the proportion of land devoted to agricultural purposes is low in Spain. The primary forms of property holding have been large estates (latifundios) and tiny land plots (minifundios). Minifundios were particularly numerous in the north and the northwest. Latifundios were mainly concentrated in the south. Crop areas are farmed in two highly diverse manners. Areas relying on non-irrigated cultivation, which made up the largest share of the entire crop area, depend solely on rainfall as a source of water. They included the humid regions of the north and the northwest, as well as vast dry zones that have not been irrigated. Although only a small part of Spain's cultivated land was irrigated, it was estimated to be the source of a large share of the gross value of crop production (www.country-studies.com).

The topography and climate of the United Kingdom splits the country into two main areas for agriculture: the north and west are more usually used for livestock farming, with arable farming more often found in the south and east. As in many European countries, the trend is towards fewer, larger farms. There are two principal forms of occupation in the UK: owner-occupied, or tenanted (EFAC, 2000).

2.2 Structure

The structure of the agricultural holdings is very diverse in Europe (table 2.1). The greatest number of farms can be found in Poland. However, these farms are on average the smallest, expressed in acreage. In the Czech Republic, the average size expressed in ha is 143.8, although 31% of the farms is still smaller than 5 ha.

Table 2.1 Structure of agricultural holdings in Europe (size > 1 ESU)

	Number of farms	Average size (ha)	% farms < 5 ha	% farms > 100 ha
The Netherlands	85,400	23,5	30	2
Belgium	53,000	26,4	25	3
Czech Republic	25,000	143,8	31	17
Denmark	48,600	54,7	4	16
France	566,300	48,9	22	15
Germany	390,.200	43,3	20	7
Hungary	161,000	25,3	52	3
Poland	1.853,000	12,2	34	1
Spain	978,500	23,2	49	5
United Kingdom	181,800	85,2	14	22

Source: Eurostat (2004) and Ministry (Poland) of agriculture and rural development (2004).

Figure 2.1 shows the distribution of the economic size, expressed in Economic Size Units (ESU).[1] The ESU indicates the financial potential of the holding in terms of the margins which might be expected from crops and stock and is a better measure to compare the size of the farms in the analysed countries. Although in the Netherlands, only 2% of the farms is larger than 100 ha, expressed in economic size 32% of the farms is larger than 100 ESU.

[1] The ESU is a measure of the economic size of a farm business based on the gross margin imputed from standard coefficients for each commodity on the farm rather than physical units as area or labour. The Standard Gross Margin (SGM) is defined as the value of output from one hectare or from one animal less the cost of variable inputs required to produce that output. The standard gross margins are based on three year averages and are updated every two years. Each region or country in the Farm Accountancy Data Network, (FADN) calculates Standard Gross Margins for that region. The Standard Gross Margin may be different from actual margin on a farm because of the wide variation between farms with the same physical composition.

This is the highest percentage of the analysed countries. Of the new EU countries, Poland and Hungary have many small farms; while in the Czech Republic the percentage of large farms (> 100 ESU) is even higher than the percentage in Spain.

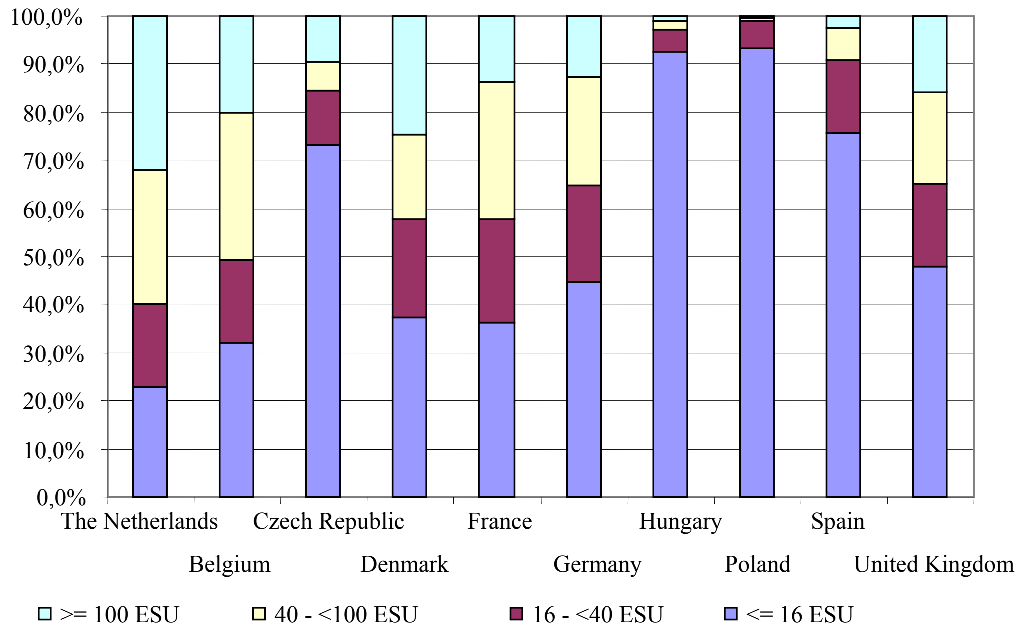


Figure 2.1 Distribution of farms according to economic size (ESU) 2003 (Poland 2002)
Source: Eurostat (2004).

Although in most countries only a small proportion of the holdings has an economic size over 100 ESU, a large share of the agricultural land is cultivated on large farms, except for Poland and Spain (figure 2.2).

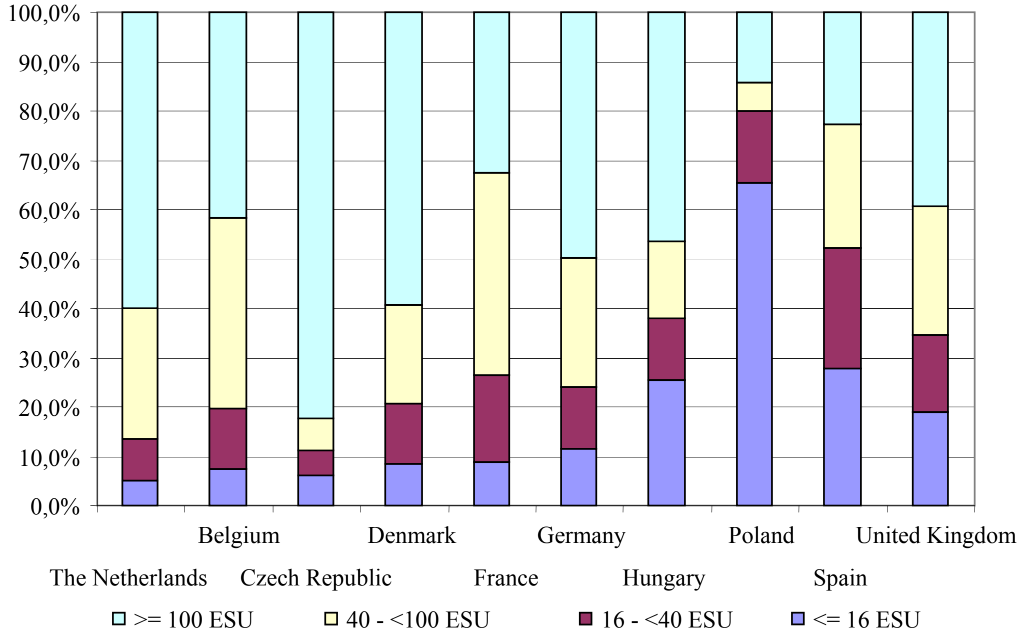


Figure 2.2 Distribution of area according to economic size (ESU) 2003 (Poland 2002)
Source: Eurostat (2004).

Table 2.2 shows the average family farm income for the period 2001-2004. For the new EU countries, only the year 2004 is available. Although these figures are based on economic and not fiscal calculations, they give an impression of the level of income in the analysed countries.

Table 2.2 Average family farm income (€)

	2001	2002	2003	2004	average
The Netherlands	42,700	29,100	37,600	29,800	34,800
Belgium	47,100	39,500	48,900	45,300	45,200
Czech Republic				27,900	27,900
Denmark	17,700	500-	1,200	6,800	6,300
France	27,900	29,700	28,200	27,600	28,300
Germany	25,600	20,300	20,700	28,900	23,900
Hungary			1,000	6,600	3,800
Poland			9,500	5,900	7,700
Spain	18,400	20,800	22,700	24,100	21,500
United Kingdom	27,700	33,800	41,700	29,900	33,300

Source: EU-FADN, Poland 2003: Agricultural Accountancy Department Poland (2004).

It is interesting to note the rather low average income in Denmark, which is caused by the high interest burden compared to the agricultural income. In Hungary and Poland, the average income is also rather limited while in the other new EU country, the Czech Republic, farmers are able to generate a respectable income. The Czech farms are on average the largest of the analysed countries (measured in ha). The farms in Belgium and the UK generate the highest incomes on average.

Figure 2.3 shows the average family farm income for three categories of farms. The larger farms are all able to generate quite a respectable income. In Denmark, the average family farm income for the smaller farms is even negative, which implies that for the input of own labour and capital, no remuneration is left.

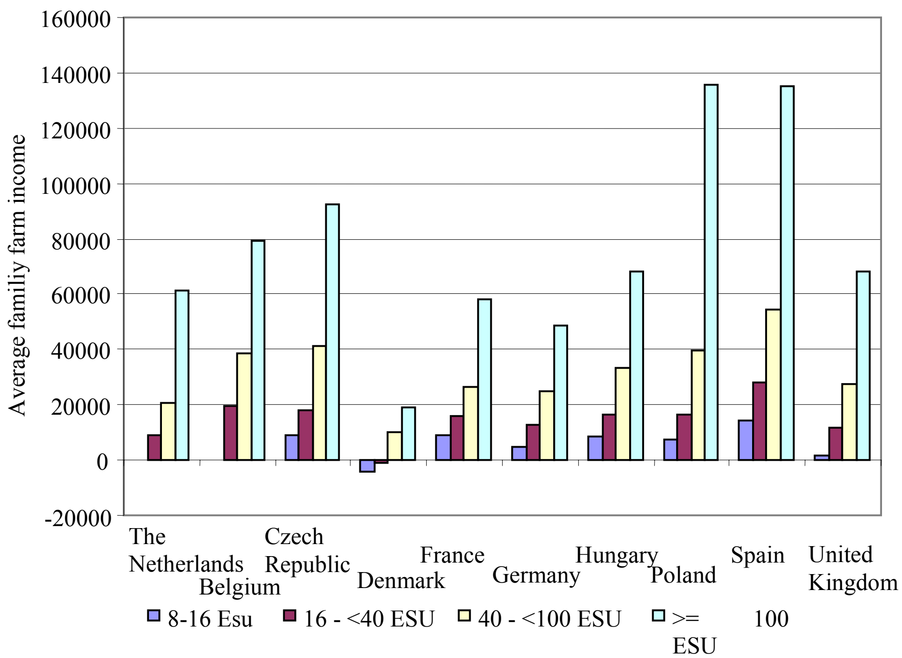


Figure 2.3 Family farm income according to economic size (ESU) 2001-2004 (not for all countries four years available)

Source: EU-FADN.

3. Comparison of income taxation

3.1 Introduction

This chapter compares the income tax systems of the 10 countries. Detailed descriptions of the analysed countries can be found in the appendices.

In the Netherlands, agricultural production generally takes place on family farms, mainly partnerships (table 3.1). Only about 4% of the holdings is a legal person, mainly found in horticulture under glass. Consequently, personal income tax is the main system for the taxation of agricultural income in the Netherlands, which is also the case for most of the other countries, where agricultural production also tends to take place on family farms, usually as one-man business.[1] The private partnership is the main business form in the UK. Personal income tax is therefore generally the main tax system. In the Czech Republic, the legal person is important. Although only 11% of the farms are a legal person, they use about 73% of the agricultural land; consequently the corporate income tax is the main system for Czech farmers.

Table 3.1 Main business form and tax system

Country	Main business form and tax system	Main tax system
Netherlands	one-man business and partnership	personal income tax
Belgium	one-man business.	personal income tax
Czech Republic	only 11% legal form, however almost 73% of the land	corporate income tax
Denmark	one-man business	personal income tax with the company scheme
France	one-man business and partnership	personal income tax
Germany	one-man business and partnership	personal income tax
Hungary	one-man business	personal income: tax-broad range of systems
Poland	private agricultural holdings (family farms)	most farmers only pay agricultural property tax
Spain	one-man business	personal income tax
UK	private partnership	personal income tax

In Denmark, an additional scheme is available for the taxation of business and professional income (company scheme). The purpose of the company scheme is to give self-employed individuals the opportunity to choose a fiscal scheme that includes the same fiscal advantages as those existing for legal companies. When taxed in the company scheme, the income is in principle determined according to the normal tax rules. It is possible to

[1] A one-man business is a legal form with one formal owner. It does not imply that only one person works on the farm.

save part of the income in order to activate it in later years. In Poland, most farmers do not pay income tax, but only pay an agricultural property tax.[1] In Hungary, a wide range of systems is available for farmers (see paragraph 3.2.1).

3.2 Income assessment

3.2.1 Methods of income calculation

The methods of income calculation are very diverse among and sometimes within the countries (table 3.2). Accounting, simplified accounting, per unit valuation and estimation are applied. Per unit valuation implies that the profit is assessed on the basis of the number of animals or ha, for example. If an estimation method is applied, the profit is estimated either based on norms (for example profit as a percentage of the revenues) or estimated by the entrepreneur.

The Netherlands is the only country which has full accounting rules for all farmers. In Denmark, small farms established before 1999 are excluded from the accounting obligation. In the UK, only a profit and loss account has to be provided in the case of unincorporated businesses. In Poland, only specific agricultural production (such as greenhouse production, poultry production, mushroom production, beekeeping, large-scale pig farming, fur animals, silkworm production, etcetera) is placed under the income tax, which implies that income tax and accounting is not often applied. The other agricultural production is not taxed and only the agricultural property taxation is relevant, which is based on norms.

The taxation of Hungarian farming is rather complicated due to the various forms of agricultural production:

- for a small number of farms (but producing a large share of the agricultural production), the corporate income tax is relevant;
- farmers do not have to include the agricultural income if the revenues from agriculture are less than €2,384. Many families produce both for their own consumption and selling on markets. In 2003, there were 612,400 farms with an economic size of less than 1 ESU. These families benefit from this arrangement, especially since the agricultural production can be shared among several family members or other relatives, over the age of 16. This agricultural production only provides a small additional income;
- small-scale farmers whose farm is the main source of income may file a signed simplified declaration statement indicating the annual revenues, stating that they had no income from small-scale agricultural production during the tax year. No tax is due;
- other agriculture small-scale producers can choose for flat rate taxation, if their revenue is not more than €15,894. The farmers are then taxed on gross income less an estimated deduction for expenses, which is 85% for crop production and 94% for food production.

[1] For the sake of a good comparison of agricultural taxation, the Polish agricultural property tax will be included in the comparison of the income tax.

For the other categories of family farms, either the normal personal income tax or the entrepreneurial income tax and entrepreneurial dividend tax apply.

Table 3.2 Methods of income calculation

Country	method of income calculation
Netherlands	all farmers must have accounts
Belgium	most farmers (60-70%) use the per unit valuation scheme
Czech Republic	accounting. personal income tax provides lump sum estimation and estimation by the entrepreneur.
Denmark	almost all farms have to have accounts
France	both real income calculation and per unit valuation
Germany	different methods: net worth comparison, net income, per unit valuation
Hungary	accounting, for small-scale producers: estimated income based on norms for costs/simplified entrepreneurial tax: only percentage of turnover accounted. For the very small farms, favourable facilities exist
Poland	for the agricultural property tax: norms (per unit valuation)
Spain	three systems, depending on turnover:accounting, simplified bookkeeping and estimation based on norms
UK	no special accounting rules. unincorporated business only a statement of profit and loss

The application of the assessment based on norms differs among the countries (table 3.3). This is due to the differing rules for application and the fact that not all systems are equally favourable. However, irrespective of how advantageous a system is for the average farmer, not all farmers will benefit from a system of normative assessment of taxable income, because of the large spread in profitability.

In Belgium, a large percentage of the farmers applies the Barema system which is based on average figures. The choice between the systems is free, although if the administration can prove that the actual income is substantially higher than the profit estimated under the valuation method, the valuation method is not allowed.

In the Czech Republic, a large share of the land is cultivated under corporate income tax. Consequently, the facilities available under the personal income tax (lump-sum assessment and estimation) are not of a great importance. Furthermore, the norms for the lump-sum assessment do not seem to be very beneficial for farmers.

The main assessment method in Denmark is based on accounting. The small group of farmers with no accounting obligation is free to choose.

Of the French farmers, 60% applies the per unit valuation method. Small farmers can choose freely between this option and accounting and base their choice mainly on which of the facilities is the most favourable one.

In Germany, the per unit valuation method is only available to small farmers. For some farmers it is beneficial, for others it is not. The average income calculated based on the norms seems to be somewhat higher than the actual income.

In Hungary, the flat rate taxation for small farmers results in an income that seems to be comparable with the actual income. The simplified entrepreneurial tax is not feasible for farmers. Many small farmers benefit from the favourable facilities that exist. In many cases no tax will be due on the agricultural income.

In Poland, most farmers only pay agricultural land tax. When comparing the family farm income with the actual amount of taxes paid, this system seems on average rather favourable.

In Spain, most farmers apply the estimation method. This method is not allowed for the larger farmers, but most farms in Spain are small and the threshold for using the per unit valuation method is at a rather high level. Farmers using the per unit valuation method seem to benefit from this method.

Table 3.3 Application of fixed income calculation method

Country	Use	Beneficial
Netherlands	-	-
Belgium	70 to 80% of the farmers	the standards are based on average figures. Some farmers benefit, others do not, but on average beneficial. It is a free choice. In the case of substantially higher income, tax authority can base the income on the average of 3 comparable tax subjects.
Czech Republic	large share of land is used under Corporate income tax, accounting obliged.	the options under the personal income tax are optional. They do not seem to be very beneficial.
Denmark	only a very small group has no accounting obligation.	free choice for farmers belonging to that group.
France	60% of farmers the per unit valuation method.	only available for small farmers. Free choice which depends mainly on which option is beneficial.
Germany	40% of the farmers	per unit valuation only an option for small farmers. Beneficial for some farmers, not for others. Average somewhat higher than actual income.
Hungary	no exact figures found.	flat rate taxation (personal income tax) seems to be comparable with family farm income. Simplified entrepreneurial tax not feasible for corporations. Many small farmers benefit from favourable facilities.
Poland	most farmers apply agricultural land tax (obligation).	the average tax rate seems rather low (calculated as the tax amount paid as a percentage of the agricultural family income).
Spain	mostly based on estimation.	it is a free choice. Analysis of the assessment of the estimated income shows that this seems rather favourable.
UK	-	-

In the Netherlands, no estimation of the agricultural income is applied and for all farms, large or small, accounting is obliged. This supports the competitive position of Dutch Agriculture since it encourages structural development. If favourable measures for smaller farmers exits, farm enlargement is discouraged. For farms that are able to generate an income above the estimations or per unit valuation standards, the accounting rules lead to a higher taxable income than under the estimation scheme. For less efficient farms, the opposite applies. In many of the examined countries, the norms are based on averages, automatically leading to over- and underestimation for an individual farm. Since the use of the norms usually is a free choice, most farms will over a longer period benefit from that facility, otherwise accounting would be a better option. Analyses based on the FADN-RICA database also indicate that in most countries the norms for the normative assessment produce lower assessed incomes than the actual ones (see appendices). Consequently, the amount of tax paid is expected to be lower if the estimation is applied, leading to a competitive advantage. So, estimating the fiscale income is both positive and negative for the competitive position of farmers.

In the remaining analysis we will focus on the farms applying accounting rules.

3.2.2 Taxation of EU subsidies

In the Netherlands, the EU subsidies are included in the fiscal income and normally taxed (table 3.4). In Belgium, the EU subsidies are not included in the valuation scheme, but are taxed separately at a rate of 16.5%. Belgian farmers using accounts can choose between including the EU subsidies in the normal fiscal income or taxing them separately at the special tax rate. In Spain, the EU subsidies are always included in the taxable income, although their taxation is limited under the assessment based on norms. In the other countries, the EU subsidies are taxed if the income is based on bookkeeping.

The special tax rate in Belgium is not favourable in all situations. Farms applying the per unit valuation scheme might actually have a low or even negative income, which implies that they would not have paid any taxes over the subsidies if they were included in the normal fiscal income.

In the other countries, if farms use a kind of per unit valuation scheme, EU subsidies are not taxed separately.

Table 3.4 Taxation of EU subsidies

Country	EU subsidies taxed?
Netherlands	yes
Belgium	yes, always at a 16.5% rate
Czech Republic	yes
Denmark	yes
France	yes, if real income calculation
Germany	yes, if net income calculation
Hungary	yes
Poland	no
Spain	yes, less taxation under estimation
UK	yes

3.2.3 Tax reducing facilities

The Netherlands has a progressive personal income tax system. This implies that in good years a relatively higher amount of taxes should be paid. However, an averaging system exists, which can be used to moderate the progression with strongly varying profits (table 3.5). This is a general facility, which can be used to level out incomes of three years, although there is a rather high threshold. In contrast to the Netherlands, the UK and France offer a specific agricultural facility. In the UK, the averaging system levels out the incomes of two years, while in France there is a more complex system to level out fluctuations in incomes (the quotient system). This implies that the three-year average is calculated and multiplied by 1.5. The income above this amount is divided by 5 and the tax is calculated. This amount is multiplied by 5. The quotient system implies that extreme incomes are taxed at a flat rate. Besides this specific facility, French entrepreneurs can use a kind of savings scheme. It allows farmers who are taxed according to real profits to deduct deposits on professional savings accounts as an expense (thus tax deductible from the overall agricultural profits). The account must be used in cases of unforeseen problems due to climate or family conditions, or due to sharp decreases in income. The sum becomes taxable when used. In Denmark, the depreciation of assets and the valuation of (part of the) stock offer the opportunity to level the incomes. Entrepreneurs can also choose for the company scheme, which offers a flat rate taxation (30%). In Spain, only 60% of the income earned during a period of more than 2 years is taxable. This does not usually apply to income from normal agricultural activities, but may be applicable in the case of special EU subsidies or capital gains. The facilities in Denmark and Spain are all general facilities.

Income variability over time is an inherent problem of agriculture in all countries (OECD, 2005). Additional variability in the taxable income may arise due to allowances, for example investment allowances. The number of farm households shown to suffer persistently from low incomes is much smaller than that of farms where income is low in individual years. In terms of policy analysis, income averaging over something like three years can therefore be supported, but it is clearly not a solution where low income is persistent. It is worth noting that mechanisms that tackle income stability by smoothing disposable income can avoid effects on production that result from trying to limit variability of income. It should also be remembered that if a per unit valuation system or estimation system is applied; the fluctuation of the post-tax disposable income is even greater than that of untaxed income (OECD, 2005).

Averaging systems are especially beneficial for farmers with a variable taxable income which is on average positive. Loss transfer can also smooth variable taxable incomes. The main factors that influence the variability of the taxable income are volatility of output prices and production and the share of fixed costs in total costs. If the cost level hardly fluctuates with the output level, the variability of the income increases. The weather has a particularly large impact on production. Besides these factors, which can hardly be affected by the farmers, fiscal investment incentives can lead to variability of the taxable income. Although these incentives might also be used to smooth out the high incomes: farmers just invest in years of high income to avoid taxation.

Sectors in the Netherlands that are traditionally known for a high variability in income are open field horticulture (vegetables, fruit and bulbs), arable and intensive livestock farming. However no information is available on how often the averaging system is applied in the Netherlands and what the benefit is. In France, the quotient system comprises a benefit of €282 million in 2000 (OECD, 2005). This averages €450 per farm.

Table 3.5 Tax reducing facilities

Country	Tax reducing systems like averaging of income
Netherlands	averaging incomes of three years (general facility)
Belgium	not present
Czech Republic	not present
Denmark	company scheme
France	quotient system (agricultural facility), deduction for risks (kind of reserve)
Germany	not present
Hungary	not present
Poland	not relevant for the agricultural property tax
Spain	60% rule
UK	averaging incomes of two years (agricultural facility)

3.2.4 Loss transfer

In the Netherlands, losses can be carried back for three years and forward unlimitedly (table 3.6). In many of the analysed countries (Belgium, Czech Republic, Denmark, Hungary and Spain), carry back is not allowed. In both Germany and the UK, the period is limited to 1 year and in Germany an additional limit of €511,550 exists. In France, carry back is only available for associations. Due to the fact that most farmers in Poland only pay agricultural land tax, no losses exist and loss transfer is therefore not relevant. In other countries, for farmers using a kind of per unit valuation or estimation scheme, loss transfer is not relevant either.

The carry forward of losses is unlimited in the Netherlands, just as Belgium, Denmark, Germany, Hungary and the UK. In Germany, there is an additional limit of transfer, but it is a rather large amount for farmers. Other countries limit the carry forward of losses to 4 (Spain), 5 (Czech Republic) or 6 years (France).

In some countries additional rules for the loss transfer between categories of income and losses exist:

- Czech Republic: employment income cannot be used to set off losses of other categories of income;
- France: agricultural income cannot be set off against other categories of income;
- Germany: loss transfer is applied before the deduction of extraordinary and special expenses on the positive income, with the result that the deduction of such expenses is reduced or even totally cancelled in years in which a loss carry-over is applied;
- Hungary: permission of loss transfer is necessary if the turnover is less than half of the expenses or if the entrepreneur incurred losses during two years;
- Spain: Short-term capital losses may only be set of against short-term gains of the current year. Long-term losses can only be set of against long-term gains for a period of four years;
- UK: capital losses can only be set off against capital gains of current years, not other years.

Compared to the other evaluated countries, the Netherlands has the broadest facilities for loss transfer. Both carry back and forward are allowed and the carry back facility is only limited to 3 years. No additional rules exist that restrict the loss transfer. The positive effect on the competitive position depends on both the level and the volatility of the fiscal income. A farm with a highly volatile income that is on average not positive does not benefit from loss transfer. However, such farms are not really relevant for the competitive position. Carry back of losses does provide a direct liquidity advantage, as the farmer might directly benefit from a refund of taxes if tax is paid in the three years before.

Fiscal losses can result from both poor results and from allowances. Due to the fiscal investment incentives in the Netherlands, large allowances might arise in years of investment. Due to the extensive loss transfer rules, farmers can benefit at most from the fiscal investment incentives. As already mentioned in the paragraph on income averaging facilities, sectors in the Netherlands that are traditionally known for a high variability in income are open field horticulture (vegetables, fruit and bulbs), arable and intensive livestock farming. Additionally, horticulture under glass benefits particularly from fiscal investment incentives due to the high capital intensity of that sector. For these sectors, both averaging and loss transfer facilities offer ways to reduce the tax burden.

Table 3.6 Rules for loss transfer

Country	Carry back	Carry forward
Netherlands a)	3 years	unlimited
Belgium	not allowed	unlimited
Czech Republic	not allowed	5 years
Denmark	not allowed	unlimited
France	only for associations	6 years
Germany	1 year (up to €511,500)	limited to €1 million + 60% of the income above this amount
Hungary	not allowed	unlimited
Poland	not relevant	not relevant
Spain	not allowed	4 years
UK	1 year	unlimited

a) From 1 January 2007 the carry forward of losses will be limited to 9 years for personal income tax.

3.2.5 Depreciation methods

In the Netherlands, a number of depreciation methods are allowed (table 3.7).[1] The farmer can choose freely between them, provided that the system complies with 'sound business practice'. In most of the other countries, also more than one method of depreciation is allowed, where buildings are usually depreciated linearly.

Although in the UK depreciation is allowed, the term depreciation is not used; it is called capital allowances. In Hungary only one depreciation method (linear) is allowed. Due to the fact that mainly agricultural land tax is paid in Poland, the depreciation method is irrelevant.

The depreciation method affects the timing of the depreciation, but not the total amount of depreciation during the lifetime of the assets. In that way, depreciation methods that are somehow degressive facilitate the entrepreneur, but it is only a liquidity advantage in the way that the assets will be depreciated earlier in time. In the Netherlands, degressive depreciation methods are allowed. Compared to countries where linear depreciation is pre-

[1] Investment incentives are described in paragraph 3.3.1, including accelerated depreciation.

scribed (for part of the assets), this offers a small competitive advantage. Although it is mainly a liquidity advantage, it might enable the farmers to invest more or at an earlier point in time.

Table 3.7 Depreciation methods

Country	Depreciation methods	Free choice or prescribed
Netherlands	linear depreciation, reducing balance depreciation, decreasing percentage, production output depreciation	free choice
Belgium	usually linear and the declining balance method	declining balance method is optional
Czech Republic	linear and accelerated depreciation	free choice
Denmark	linear (buildings), pool (machinery)	prescribed
France	mainly linear, declining balance method allowed in certain cases	declining-balance allowed in certain cases
Germany	linear and degressive	free choice
Hungary	linear	-
Poland	-	-
Spain	linear, the declining balance method (excluding buildings) or sum-of-the-years'-digit method a)	declining balance not for buildings
UK	capital allowances. Linear for buildings, reducing balance method for plants and machinery.	prescribed

a) To calculate depreciation charges using the sum of the year's digits method, take the expected life of an asset (in years) count back to one and add the figures together. Example: 10 years useful life = 10 + 9 + 8 + 7 + 6 +5 + 4 + 3 + 2 + 1 Sum of the years = 55. In the first year, the asset would be depreciated 10/55 in value the first year, 9/55 the second year, 8/55 the third year, and so on.

3.2.6 Production rights

In the Netherlands, production rights are placed on the fiscal balance sheet if they are purchased (table 3.8). Only in France and the Czech Republic, this is not allowed. Although in most of the countries the rights are valued in case of acquisition, only half of the countries (Netherlands, Belgium, Germany, Hungary, Spain and the UK) offer the opportunity to depreciate the production rights. In Poland, the valuation and depreciation of production rights irrelevant.

Table 3.8 Valuation and depreciation of production rights

Country	Placed on balance sheet?	Depreciation allowed?
Netherlands	yes	yes
Belgium	yes	yes
Czech Republic	no	no
Denmark	yes	no
France	no	no
Germany	yes	yes
Hungary	yes	yes (no rates specified)
Poland	-	-
Spain	yes	yes
UK	yes	no

For the competitive position of the Netherlands, the opportunity to depreciate production rights seems to offer an advantage. However, it is to be expected that this is at least partially incorporated in the market price (Boone and van Bommel, 2001).

3.2.7 Capital gains

In the Netherlands, capital gains are included in the ordinary taxable income (table 3.9), although by using the averaging facility (table 3.5), taxation can be limited. In most of the other countries, capital gains are included in the ordinary taxable income as well. In Belgium, the capital gains are taxed at special rates, depending on the kind of capital gain. In France and Spain, taxation depends on the period of possession of the asset. In both countries, assets hold for longer than a certain period (France 2 years, Spain 1 year) are taxed at a special rate. In Spain, however, the farmers under the estimation assessment can choose to tax the capital gains either under the capital gains tax or as regular income.

Table 3.9 Taxation of capital gains

Country	Capital gains general	
	Ordinary income	Other
Netherlands	yes	agricultural allowance (land) reinvestment reserve
Belgium	yes, but special rates available	rollover relief exemption for agricultural land (personal income tax)
Czech Republic	yes	capital losses not deductible
Denmark	yes	allowance own dwelling is exempt
France	if held for less than 2 years	otherwise tax rate of 26% buildings cheaper than €15,000 exempt entrepreneurs with turnover of less than €250,000 exempt. only under real income calculation.
Germany	yes	investment reserve
Hungary	yes	-
Poland	-	an exemption exists for the sale of property belonging to a farm. The exemption of land is on condition that the land is still used for agricultural production. No capital gains taxation for farms liable to agricultural tax.
Spain	yes, but only short term	long-term taxed at 15%, Farmers under the objective assessment can opt to tax capital gains under the capital gains tax or as regular income, depending on which is more favourable.
UK	yes	taper relief roll-over relief

Special facilities exist in Belgium, France, the Netherlands, Poland, and the UK. In the Netherlands, the agricultural allowance exempts a large share of the capital gains on land. The difference between the original value and the agricultural value at the moment of transfer (WEVAB) is exempt. Additionally, taxation can sometimes be delayed by the reinvestment reserve. In Belgium, farmers taxable under the personal income tax are exempt from taxation on capital gains on land. In Poland, only farms under the personal income tax are liable to capital gains taxation. However, there is a large exemption for agricultural property. In the UK, taper relief reduces the amount of chargeable gain according to the length of time that the asset has been held after 5 April 1998 and reduces the taxable gain on business assets to 25% within 2 years. In France, entrepreneurs with a turnover of less than €250,000 and buildings cheaper than €15,000 are exempt. In the Czech Republic, capital losses are not deductible.

The agricultural allowance is particularly beneficial for Dutch farmer if they quit farming. In case of relocation of a farm, the taxable gain (above the agricultural value of the land) can sometimes be postponed by using the reinvestment reserve. Consequently, the actual moment that capital gains become taxable is generally the moment when the farmer quits farming and thus the competitive position of active farmers is not directly influenced by the agricultural allowance.

3.2.8 Quitting farming

A special type of capital gain arises when a farmer quits farming and the farm is taken over by his successor. In the Netherlands, the successor may take over the farm, while continuing the book values of the predecessor (table 3.10). Thus taxation on capital gains is postponed and will ultimately be liable by the successor. This offers a direct advantage for the predecessor (no taxation on capital gains), but a disadvantage for the successor (lower depreciation base) leading to a reduced transfer price. Another facility offered is a small discontinuation allowance.

In a number of countries, the possibility to take over the farm at its book value is also offered (Belgium, Denmark, France and Germany). Some countries offer additional facilities. Belgium offers a special tax rate. Germany offers a tax reduction of 50% for old or disabled farmers. A general facility for German entrepreneurs (*Fünftelregelung*) exists which reduces the tax paid related to the selling or closing down of an enterprise. In the UK, no capital gains taxation taxes place in case of the death of the entrepreneur.

The facilities available at the moment of stopping farming affect the moment of retirement. Farmers who are planning to retire will try to reduce the amount of tax due. If postponing the moment of retirement might reduce the tax payable, the development of the agricultural sector will also be delayed since usually the younger farmers take care of renewal while the retiring farmers usually postpone investments (van der Veen et al., 2001). Additionally, retiring farmers release land and quota for other farmers that would like to grow. Facilities that accelerate the moment of farm transfer are consequently favourable for the competitive position of the agriculture.

Looking at the facilities in the Netherlands, only the continuation of book values is relevant today, but will this accelerate farm transfer? If a farm is transferred with the continuation of the book values, the transfer price will usually be lower which might accelerate the moment of farm transfer and is consequently beneficial for the competitive position of Dutch agriculture compared to countries that do not offer the facility. However, some of the other countries offer additional facilities for retiring farmers (Belgium and Germany). These facilities might also lower the transfer price and consequently speed up the moment of farm transfer.

Table 3.10 Taxation of farm quitting

Country	capital gains on farm quitting
Netherlands	discontinuation allowance (€3,630) transfer to successor: no cessation, continuation of book values
Belgium	special rate (16.5%) available. transfer to successor: no cessation, continuation of book values
Czech Republic	-
Denmark	transfer to successor: no cessation, continuation of book values
France	transfer to successor: no cessation, continuation of book values
Germany	selling farms: 50% reduction in case of old or disabled farmers selling farms: 'Fünftelregelung' transfer to successor: no cessation, continuation of book values
Hungary	-
Poland	-
Spain	-
UK	no capital gains taxation on death

3.2.9 Overview of income assessment

Table 3.11 shows the most important facilities related to income assessment per country. The main differences lie in the spreading of income, taxation of EU subsidies, loss transfer, depreciation of production rights and facilities related to capital gains.

Table 3.11 Favourable and unfavourable facilities per country

Country	Favourable	Unfavourable	Total
Netherlands	averaging of incomes of three years favourable loss transfer agricultural allowance reinvestment reserve		++
Belgium	EU subsidies are taxed at a separate rate roll-over relief exemption gains on land	carry back of losses not allowed	+
Czech Republic	-		0
Denmark	transfer to successor: no cessation, continuation of book values		+
France	transfer to successor: no cessation, continuation of book values		++
Germany	selling farms: 50% reduction in case of old or disabled farmers selling farms: 'Fünftelregelung' transfer to successor: no cessation, continuation of book values		+
Hungary	-		0
Poland	-		++
Spain	-		0
UK	averaging incomes (2 years) taper relief roll-over relief	capital losses can only set off against capital gains of current year, not other years	++

The Czech Republic only has an unfavourable loss transfer facility, which offers no carry back of losses and capital losses cannot be balanced. The Netherlands has the greatest number of favourable facilities.

As you can see, the table does not include information about the facilities related to real income calculation or estimation of income. It is not quite clear whether these facilities are generally favourable or unfavourable to the competitive position, since it seems to lower the tax burden, but on the other hand it discourages structural development. Another subject that is not explicitly included in this table is the depreciation of production rights. Although the fiscal rules concerning production right differ between the analysed countries, the impact on the competitive position might be expected to be limited since the fiscal treatment is usually incorporated in the market price.

3.3 Other allowances and credits

3.3.1 Investment incentives

In the Netherlands, a broad range of investment incentives exists: free depreciation of environmental investments, accelerated depreciation for starting entrepreneurs, an investment allowance, the energy saving investment allowance and the environmental investment allowance (table 3.12). In Poland, investment incentives are not relevant for most farmers, since the agricultural tax is primarily relevant. Incentives related to energy saving or environmental investments can also be found in the UK and Spain. More general investment incentives can be found in all countries except Denmark, where only R&D investments have accelerated depreciation.

Although the special tax treatments to encourage certain types of investment might seem beneficial to farmers in the Netherlands, it should not be forgotten that these facilities are not really a direct benefit (OECD, 2005). Farmers can only benefit from these facilities after making certain kinds of investments and the incentives are only meant to compensate the farmers for the additional costs incurred. However, some of these investments might be obligatory due to EU-measures. Countries that provide compensation for these investments consequently diminish the costs for the farmers compared to farmers in other countries. The investment incentives therefore only contribute to the competitive position of Dutch farmers in case of obligatory European measures. In case of voluntary investments, the incentives compensate for the additional costs.

As already mentioned in section 3.2, accelerated depreciation primarily offers a liquidity advantage. Consequently, especially additional investment allowances or credits make the difference. Compared to the other countries, only the Czech Republic and Spain have additional investment allowances (Czech Republic) or credits (Spain). However, in Spain only a selection of the investments is qualified for the tax credit.

Table 3.12 Fiscal investment incentives

Country	Environment related	Other	Rating
Netherlands	free depreciation investments in environment protection energy saving investment allowance (55% of the investment amount) environmental investment allowance (15 to 40% of the investment amount) a)	investment allowance (3 to 24% of the investment amount) accelerated depreciation for starting entrepreneurs	++
Belgium	13% energy saving.	the accelerated depreciation and the investment deduction for small enterprises.	+
Czech Republic	-	10% allowance on investment in assets in categories 1 to 3 (machinery, cars, etcetera). 20% allowance on investments in certain machinery in agriculture and forestry	+
Denmark	-	extra depreciation R&D	0
France	-	investment deduction (kind of reserve)	0
Germany	incentive investments in machines for small and medium-sized enterprises (20% (30% from 2007 on)).	in certain cases, advanced depreciation allowed (smaller agricultural farms).	+
Hungary	-	some assets newly acquired: 50% depreciation.	0
Poland	not relevant	not relevant	0
Spain	investment credits (environmental investments)	investment credits (R&D (10-50%), export activities (10%))	+
UK	extra capital allowances for energy saving or water-efficient investments.	first year allowance is higher (50% small and 40% medium-sized enterprises).	+

a) From 1-1-2007 on, the maximum rate will be 60%.

3.3.2 Other allowances and credits

Under a tax credit system, everyone is entitled to reduce their taxes by the same amount, while with a system of tax allowances, individuals taxed at higher marginal rates derive greater absolute benefits than those at lower rates. Tax credits are consequently beneficial for low-income farmers, while allowances are more beneficial for high-income farmers.

The Netherlands has a system of tax credits with a basic credit of €1,825 per person (table 3.13). Most tax systems provide basic allowances ranging from €1,193 in the Czech Republic to €7,664 in Germany. In Belgium, the basic allowance actually works as a tax credit, since the tax reduction is calculated on the lowest part of the income.

The basic allowances and the tax credits cannot be compared directly, since the net impact of the basic allowance depends on the tax rates and the level of the income. If a person in the Netherlands is taxed at the highest tax rate (52%), then the basic tax credit can be compared with a basic allowance of €3,509, while for a person taxed at the lowest tax rate (33.4%), the credit is comparable with a basic allowance of €5,464. The basic allowance in Germany and the UK is considerably higher. Compared to the other analysed countries, the tax credit in the Netherlands is rather limited, especially for farmers with a higher marginal tax rate.

Table 3.13 Basic allowances and basic tax credit

Country	Basic allowance/tax credit	Rating
Netherlands	€1,825 per person (credit)	+
Belgium	€5,660 per person (allowance)	+
Czech Republic	€1,193 per person (allowance)	0
Denmark	€4,937 per person (allowance)	+
France	on the first €4,334 (for a single person), the tax rate is 0	+
Germany	€7,664 per person (allowance)	++
Hungary	-	0
Poland	-	n.r.
Spain	€3,400 (allowance)	+
UK	€6,787 per person (allowance)	++

In the Netherlands, there is a wide range of other tax credits besides the basic tax credit (table 3.14). Regarding the size of the tax credits, the labour relief (tax credit of at most €1,935), a single parents relief (€1,831) and an additional single parents relief (at most €1,831) are the most important tax credits. For self-employed persons, there are various allowances.[1] The basic allowance for self-employed persons depends on the profit and ranges from €3,194 to €6,585. Additional allowances exist for co-operating spouses (at most 4% of the profit) and for starting entrepreneurs (€1,941). In most countries, deductions exist for labour and/or children. Besides the Netherlands, France and Belgium offer general facilities to entrepreneurs. Belgium also offers a facility for co-operating spouses: part of the income can be transferred to the co-operating spouse. However, the allowance in the Netherlands does not lead to taxation of the spouse, while in Belgium the transferred amount is taxed as income of the spouse. In France, entrepreneurs who use an accounting office receive an allowance of 20% of the income up to a certain threshold. Young farmers also get a 50% allowance for a period of five years. Germany also has a specific agricultural facility: an agricultural income allowance. In Hungary, small farmers receive a tax credit. In the UK, if the tax calculated before the tax credits is less than the credits, the remaining amount is paid to the tax payers leading to negative taxation.

In the Netherlands, there are quite a significant number of additional allowances which directly reduce the taxable income. However, the net effect of the allowances depends on the tax rates (paragraph 3.4).

[1] In order to facilitate a comparison between the countries, we refer to the cooperation and self-employed person's allowance in this section and not in the section about the profit calculation.

Table 3.14 Other allowances and tax credits

Country	Other allowances/relief	Rating
Netherlands	labour relief (credit of at most €1,935)	++
	single parents credit (€1,831)	
	additional single parents credit (max €1,831)	
	cooperation allowance (1.25 to 4% of the profit)	
	self-employed persons' allowance (€3,194 to €6,585)	
	starting entrepreneurs (€1,941)	
Belgium	allowance for children/dependants (for example €3,090 for 2 children)	+
	transfer for cooperation of spouse	
Czech Republic	per child €802	0
	low income spouse: €681	
	partial disability pension: €224	
	full disability pension: €448	
	special disability certificate: €1,569	
	students: €357.	
Denmark	employment allowance (at most €805)	0
France	reduction (50%) of agricultural income for young farmers.	+
	accounting office use->20% reduction of income.	
	employment bonus (tax credit) for the lower incomes of at most €575	
Germany	agricultural income allowance (€1,340)	+
	child allowance (€1,824)	
	additional child care allowance (€1,080)	
Hungary	employment tax credit, at most €541 (only applicable to wages)	0
	credit for voluntary pension contributions	
	credit for life and pension contributions	
	other: students, housing, family and donations.	
	small scale producers: €397	
Poland	-	
Spain	family allowance (€1,400 for the first child)	+
	employment allowance (between €2,400 and €3,500)	
	dependant allowance (€800 for each dependant older 65, low income)	
UK	age allowance (max. €9,206)	++
	working tax credit (min. €4,449 per couple)	
	children's tax credit (€2,125 per child + basis €801 + €801 children < 1 year)	
	capital allowance (see depreciation)	

3.4 Rates of income tax (including social security and other obligatory contributions)

3.4.1 Tax rates

In the Netherlands, the maximum tax rate of the personal income tax is 52% (table 3.15). This includes the social security contributions (except for the medical care contribution). No additional regional income taxes are levied.

In the other countries, the maximum personal income tax rates range from 32% in the Czech Republic to 59% in Denmark. In a number of countries (Belgium, Germany and Hungary) additional regional taxes are levied.

Table 3.15 Tax rates

Country	Maximum rate	Additional taxes
Netherlands	52% (personal income tax, including national social security contributions)	
Belgium	50% (personal income tax) corporate 35.54% separate rates relevant (capital gains, EU-subsidies, etcetera)	regional taxes (about 7% of the personal income tax)
Czech Republic	28% (corporate tax) 32% (personal income tax)	
Denmark	59% (personal income tax)	
France	48.09% (personal income tax)	
Germany	42% (federal)	solidarity (5.5% on tax amount)
Hungary	16% (corporate tax) 38% (personal income tax)	local business tax (max 2%) innovation tax (0.2%)
Poland	-	
Spain	45%	
UK	40% (personal income tax)	

3.4.2 Social security and other obligatory contributions

In the Netherlands, the social security contributions and the personal income tax are mainly integrated in the personal income tax system. Only a separate health insurance contribution is payable (table 3.16). In the Netherlands, the contribution for medical care is only deductible if the total health costs exceed a certain threshold. In most of the countries, the social security contributions are deductible for the income tax. It is not correct to say that the deductibility of the social security contributions is always favourable, since this is incorporated in the system of personal income tax and social security contributions. For the competitive position of the Netherlands, it is the total of the payable personal income tax and social security contributions that is relevant.

Social security contributions are usually calculated per person and/or as a percentage of the income. Some of the countries where the social security contributions are based on the income have lower and upper limits for the taxable base of the social security contributions (Denmark, UK, France, Spain and the Czech Republic). The situation where no lower limits exist can be favourable for low-income farmers. In countries that do not have limits, such as the Netherlands, Belgium and Hungary, low-income farmers benefit from the fact that no or hardly any social security contributions are due. Additionally, they tend not to pay much income tax. In countries where (part of) the contributions are calculated per farmer (Germany, UK, France and Poland), low-income farmers still have to pay social security contributions. For high-income farmers, the upper limits restrict the social security contributions.

Table 3.16 Social security contributions

Country	Social security contributions	Deductible for income tax.
Netherlands	4.4% medical care, max €1,320	if total health costs above threshold.
Belgium	social contributions (about 15 to 20%), lower and upper limit	yes, also for the Barema
Czech Republic	health (13.5%) disability (4.4%) pension (26%) unemployment (3.6%) partially paid by employer (25%)	yes
Denmark	social security 8% (no limits)	yes
France	health: 10.84%, minimum base of €5,752 child support: 5.4% insurance for the compulsory pension regime: 3.20% (min/max base: €5,752 /€29,712) complementary pension (voluntary): 10.97%, (min/max base: €4,314 /€29,712) insurance for work casualties and professional diseases: about €300 additional pension: 2.97% with a maximum base of €14,071	yes
Germany	business (5% * municipal factor) health care (about €80 per month) accident insurance (€10-€20 per hectare) pension (€199 per month)	deductible for personal income tax, though limited
Hungary	health (4%) pension (8.5%)	yes
Poland	€124 per person	not for the agricultural property tax
Spain	19.3% (min basis €786 per month, max. €2,898 per month)	yes
UK	€3 per week (class 2) 8% of the annual earnings between €6,787-€45,500 and 1% above this amount (class 4)	not deductible for personal income tax

3.4.3 Old age provision

In the Netherlands, there is no special scheme relating to old age provision for farmers (table 3.17). However, they can use the self-employed persons' pension allowance, a fiscal facility to save money which is taxed at a later moment. Private premiums paid to insurance companies are also deductible, while the benefits are taxed later. Some of the other countries (Germany, France, Poland and Spain) do have special schemes for old age provision for farmers. In the other countries it is included in the social security provisions.

If an arrangement exists which assures the retired farmer of a base income, stopping farming is an option at an earlier moment in time. If no such arrangement exists, the old farmer will continue farming for a longer period, postponing farm transfer and renewal. In all the analysed countries, there is some kind of pension arrangement and in many cases, a voluntary facility to increase the pension is available.

Table 3.17 Old age provision of farmers

Country	old age provision
Netherlands	national system included in social security contributions private premiums paid are deductible self-employed persons pension allowance
Belgium	self-employed persons system
Germany	farmers social security system, subsidised
Denmark	no additional scheme available, included in normal scheme
UK	national system included in national insurance contributions additional schemes for self-employed
France	social protection system for farmers. Both obligatory and optional
Spain	included in Social Security Specific agricultural Regime
Czech Republic	national system included in social security contributions private premiums paid are deductible
Hungary	three pillar system tax credit for voluntary payments
Poland	a special social security fund KRUS

3.5 Comparison of income tax (including social security and other obligatory contributions)

For every country, some examples are given in the appendix, which are based on only one case: a family with two entrepreneurs and two young children. In these examples, given a level of taxable income, the amount of income tax (including social security and other obligatory contributions) is calculated using (basic) allowances[1], social security contributions and tax rates. These calculations are extended with different levels of incomes. For a good overview, both the situation of a one-man business and a partnership[2] are given. From the calculations we cannot conclude anything about the total tax burden of the countries, as this also depends on the calculation of the taxable income. However, we can detect some interesting issues.

Figures 3.1 and 3.2 show the amount of income tax payable and the marginal rates[3] for partnerships. If we look at the smaller incomes, it is striking that no tax is paid in the UK; in fact a refund is received. Since social security contributions in the Netherlands depend on the income, farmers with a small income do not pay a large amount on contributions. In Germany, the social security contributions do not depend on the income, but are fixed. Due to the deductibility of the contributions and the rather high basic allowance, no additional income tax is paid by the lower-income farmers and the total amount of income tax and social security contributions is constant for the first €40,000 in this example.

The marginal tax rates tell us how much tax and social security contributions are paid for every Euro of additional taxable income and it reveals how progressive the tax system

[1] Excluding investment incentives.

[2] For Hungary and the Czech Republic the business form of the holding is used instead of the partnership. In Hungary no one-man business is shown due to the wide range of facilities for smaller farmers.

[3] The marginal rates exist of both income tax and social security contributions. Due to upper and lower limits the wide range of for social security contributions and the tax credits (especially in the UK), for the reader the marginal tax rates might in some cases be contradictory with expected marginal rates. However, the unexpected values can all be explained by the factors mentioned.

is. Comparing the total tax amount for an income of €100,000, the largest marginal rate is found in Belgium, followed by Denmark and Germany.

In a number of countries (Belgium, Denmark, France and Germany), the marginal rate shows progression. However due to a maximum level of social security contributions or decreasing contribution rates, the marginal rate decreases at a certain level of income in the Netherlands, Hungary and Spain. In the UK, the tax credit diminishes rapidly (37%) if the income is more than the threshold. This causes a high marginal taxation for the low incomes.

In Germany, the marginal rate for the lowest incomes is 0. The social security contributions do not depend on the level of income and the deductibility of the social security contributions and the large basic allowance lead to low tax amounts for the smaller incomes.

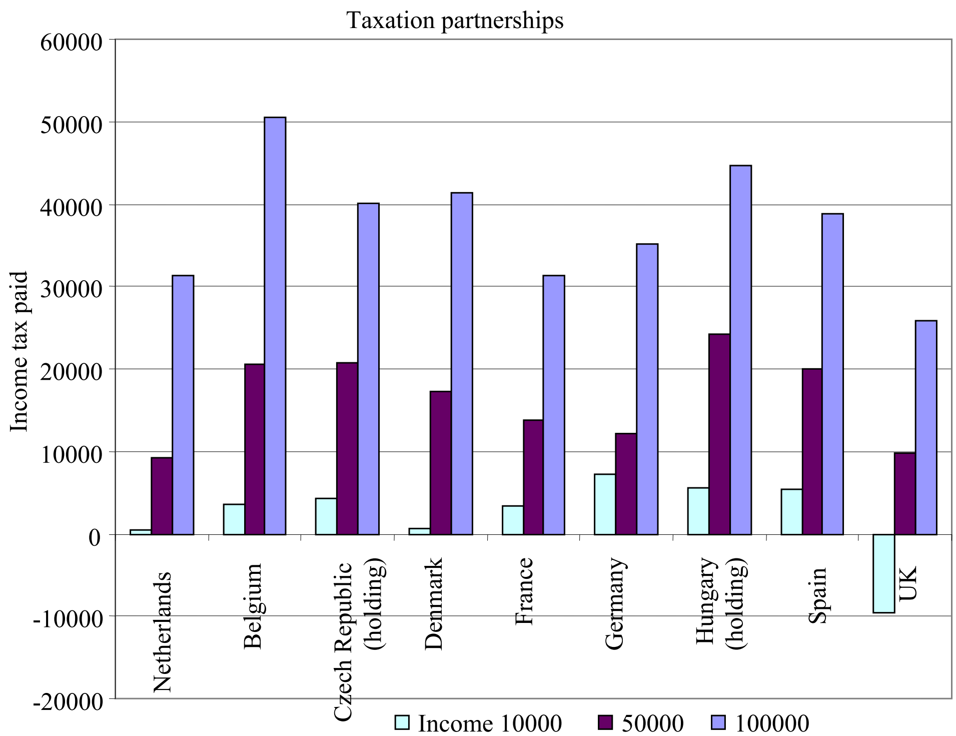


Figure 3.1 Taxation of partnerships (including social security contributions)

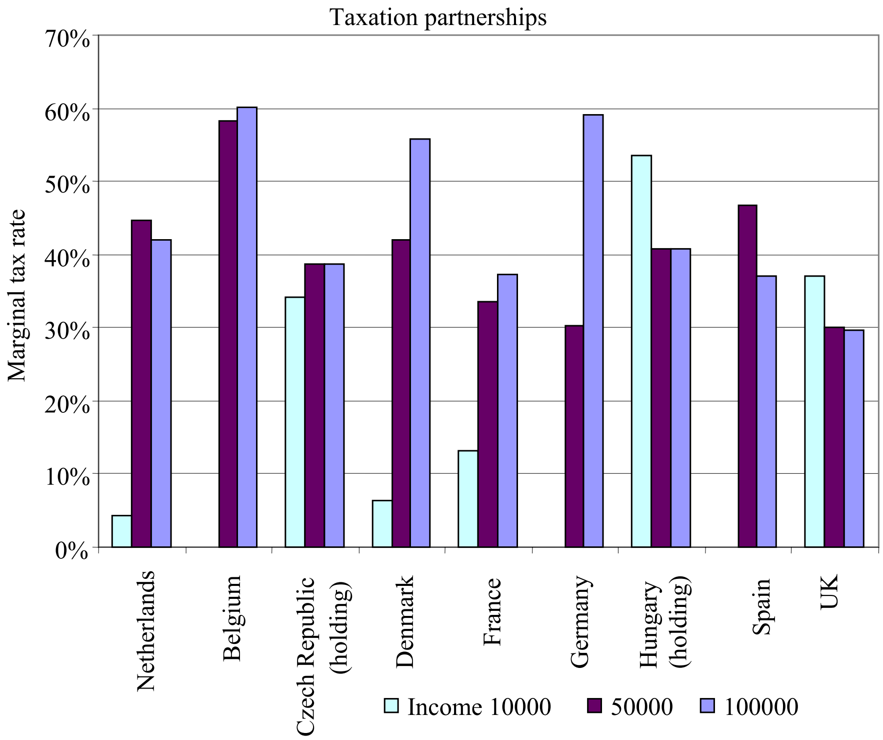


Figure 3.2 Taxation of partnerships: marginal tax rates (including social security contributions)

Figures 3.3 and 3.4 show the payable income tax and the marginal tax rates for one-man businesses, for three levels of taxable income. In this case, Belgium and Denmark have the highest tax burden for the sample farms with the highest incomes. The lowest tax burden for these farms can be found in France and the UK. Denmark and Germany show the highest marginal tax rates for the €100,000 taxable income farms, but they are closely followed by Belgium and the Netherlands. In Belgium, Germany and Spain, the marginal tax rates of the lowest incomes are zero, which is due to the facts that the social security contributions have lower limits (Belgium and Spain) or do not depend on the income at all (Germany) and no income tax is due.

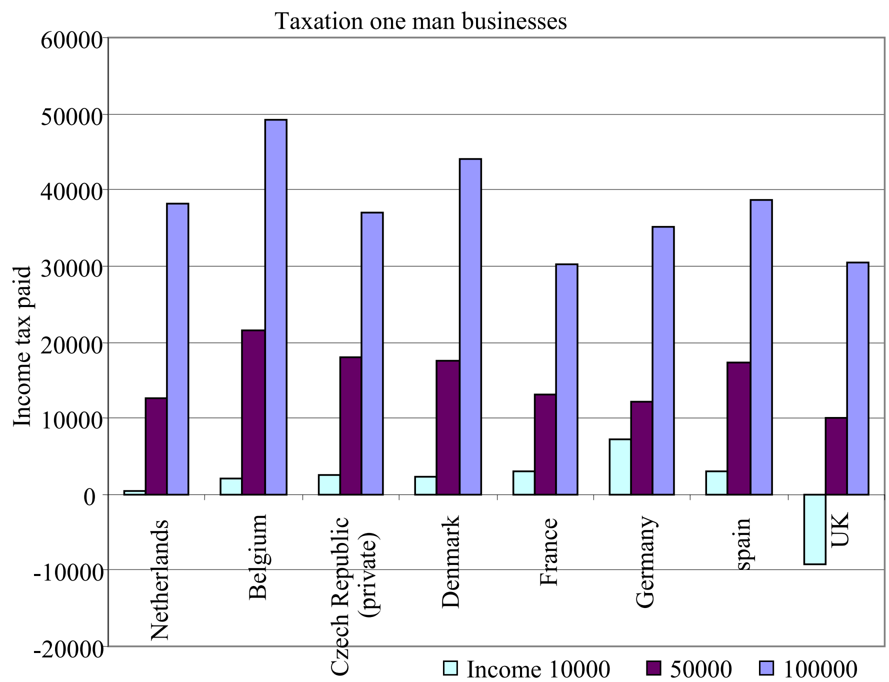


Figure 3.3 *Taxation of one-man businesses (including social security contributions)*

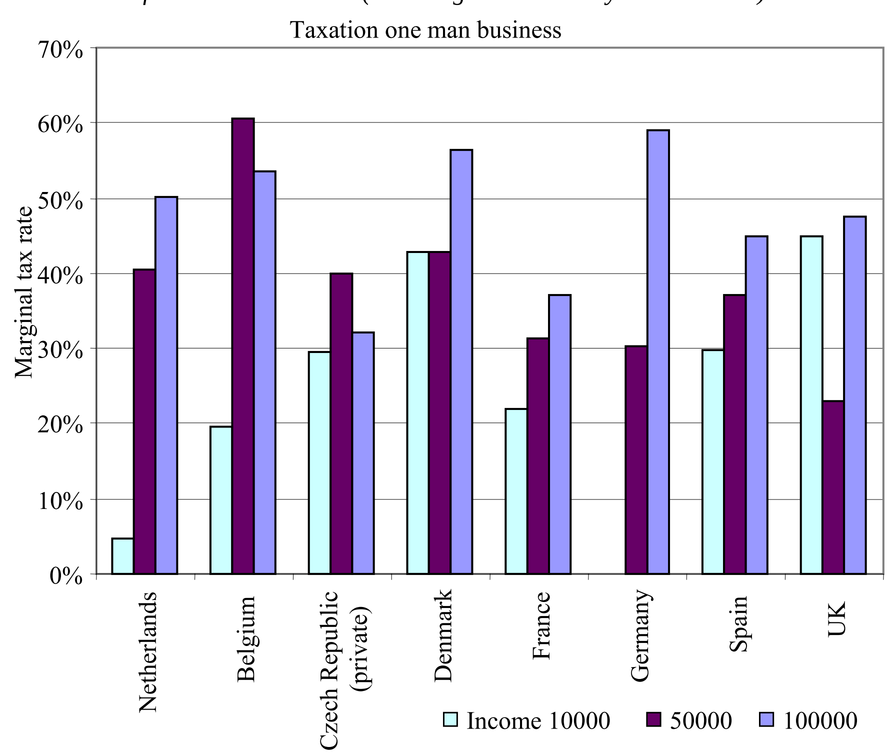


Figure 3.4 *Taxation of one-man businesses: marginal tax rates (including social security contributions)*

Figure 3.5 combines figures 3.1 and 3.3 and displays the difference in the taxation of the one-man business and the partnership (or holding for Czech Republic and Hungary).

In most of the countries, the social security contributions depend on the number of entrepreneurs. This can either be directly (the amount is fixed per entrepreneur) or indirectly (minimum or maximum bases exist per entrepreneur). Only in Denmark the amount is a fixed percentage of the profit and in Germany, the contribution is paid per family or per hectare. However, due to the progressive taxation, the income tax payable reduces with the number of taxable persons, since the profit can be distributed over more people. Since the basic allowance is usually transferable in most of the countries, a partnership does not lead to a benefit of double basic allowances compared to one-man businesses. However, in the Netherlands, the total of the self-employed person's allowance is always more for 2 entrepreneurs than for 1 entrepreneur. Whether a partnership is more beneficial than a one-man business depends for these sample farms on the level of income and how the social security contributions are levied.

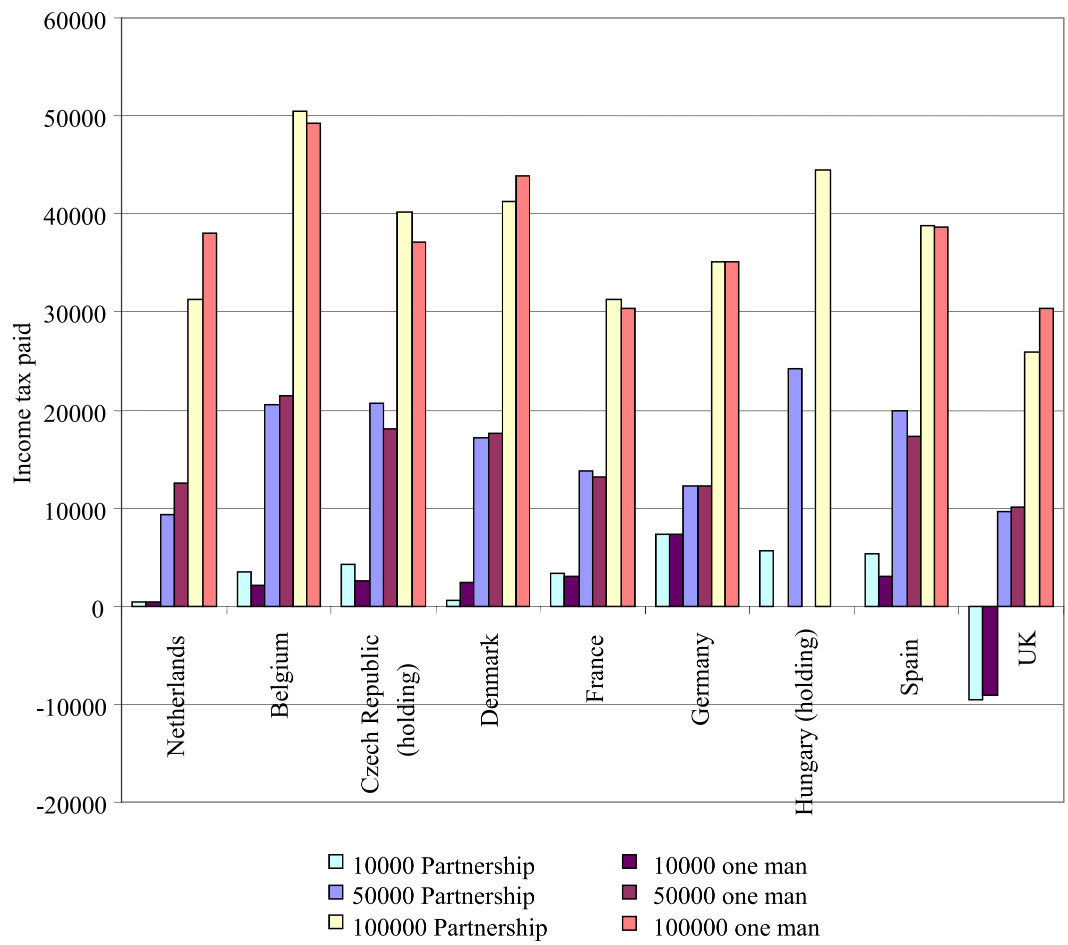


Figure 3.5 Comparison of taxation of various business forms (including social security contributions)

Figure 3.5 illustrates the taxation of both the one-man business and the partnership. However, in agriculture, usually one business form is common. Figure 3.6 shows taxation of the main business form.

It is interesting that in Belgium taxation is actually rather high. The one-man business is the most prevalent business form. Most favourable are the tax rates and social security contributions in the UK.

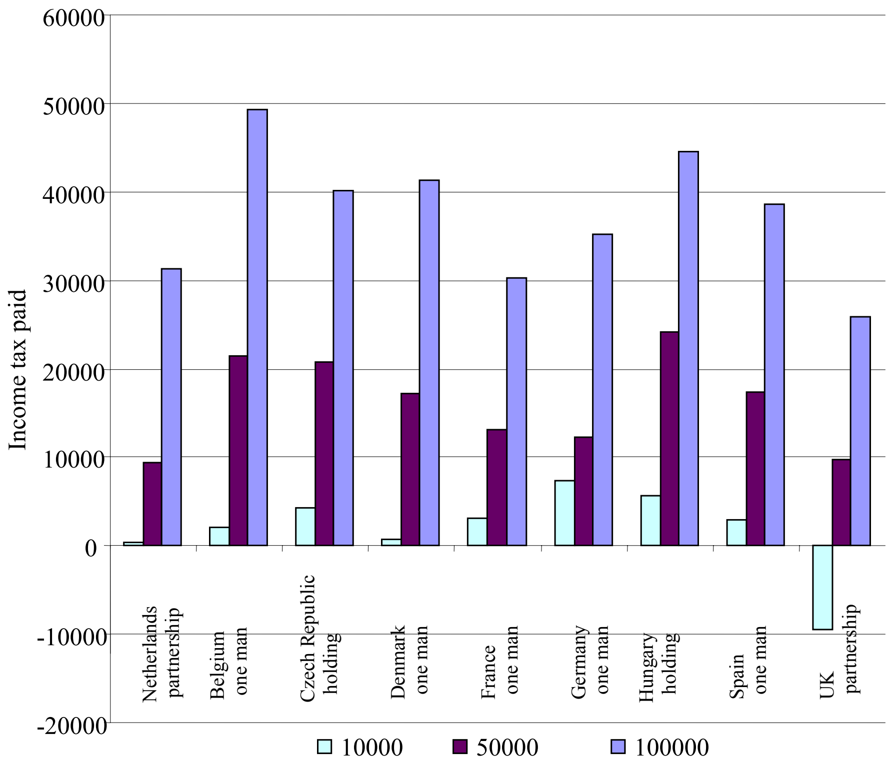


Figure 3.6 Income tax most common business form (including social security contributions)

The next table shows whether the rates and allowances are generally favourable or unfavourable. Since we are particularly looking at the high-income farmers, the average taxation of the high-income farmers is especially relevant. In Belgium and Hungary the average amount of tax paid and the marginal tax rates for the higher income is the highest for the given example. In the UK the average amount of tax paid is the lowest.

In the examples, we assumed the same level of income of all countries, which is not the case in practice (see chapter 2). Differences in the average level of income lead to differences in tax burden. This creates a methodological issue. Should the differences in the level of income be included in the analysis? In the new EU countries, the overall level of income (for all sectors) might be much lower than in the other countries. This is taken into account in the progression of the income tax rates. An average income in the Netherlands might be a high income in Hungary for example. Consequently, the taxation in Hungary might be higher than in the Netherlands, but is the competitive position of farmers in Hungary subsequently worse than in the Netherlands? We should be aware that usually the progression in tax rates is related to the income level in the country concerned.

Table 3.18 Rates and basic allowances per country for high income farms

Country	Rates and basic allowances
Netherlands	++
Belgium	0
Czech Republic	+
Denmark	+
France	++
Germany	+
Hungary	0
Poland	n.r.
Spain	+
UK	++

The actual tax burden depends on the assessment of the income, the investment incentives, the other allowances and credits and the tax rates (table 3.19). Whether a certain country is advantageous will differ for every farm, depending on factors as the size, profitability and capital intensity.

Table 3.19 Favourable facilities per country for high-income farms a)

Country	Assessment	Investment incentives	Rates and basic allowances
Netherlands	++	++	++
Belgium	+	+	0
Czech Republic	0	+	+
Denmark	+	0	+
France	++	0	+
Germany	+	+	+
Hungary	0	0	0
Poland	++	0	n.r.
Spain	0	+	+
UK	++	+	++
	3.11	3.12	3.18

a) see tables 3.11, 3.12 and 3.18.

3.6 Overview of taxation of agricultural income

Summarising the most important features of agricultural taxation per country gives the following overview:

- The Netherlands:
  Farmers usually form partnerships. Favourable facilities for the assessment of the income are the averaging facility and favourable rules for loss transfer. Using the agricultural allowance and the reinvestment reserve can reduce taxable capital gains. The Netherlands offers a large number of investment incentives, which are both general

and environment-related. Additional interesting allowances for farmers are the self-employed person's allowance, labour relief, and the co-operation allowance. The general allowances and rates are moderate for the partnerships;

- Belgium:
  The main business form is the one-man business. Most farmers (60-70%) use the per unit valuation scheme. Capital gains on land are exempt for farmers under the personal income tax. Using the rollover relief can reduce the taxable gains. Taxation of EU subsidies might be reduced if the separate tax rate is used. The carry back of losses is not allowed. Belgium offers investment incentives for small entrepreneurs and for energy-saving investments. It is possible to transfer part of the profit to the co-operating spouse. The general allowances and rates lead to fairly high taxation of the one-man businesses;
- Czech Republic:
  The holding is the most prevalent business form. Personal income tax provides lump sum estimation and estimation by the entrepreneur. With regard to the assessment of the income, carry back of losses and deduction of capital losses is not allowed. Investment incentives for certain kinds of agricultural machinery are offered, in addition to a more general incentive for investments in machinery and cars, for example. The tax rates of the holding are moderate;
- Denmark:
  Partnerships are common in agriculture. Denmark offers the beneficial company scheme and an allowance for capital gains. However, carry back of losses is not allowed. Investments in R&D can be extra depreciated. The rates and allowances are rather high;
- France:
  Farms are usually one-man businesses. The quotient system reduces the tax burden in years of high incomes. Additionally a deduction for risks can be made and a number of facilities to reduce taxable capital gains exist. On the other hand, agricultural losses cannot always be offset against other losses. An investment reserve is offered to stimulate investments. If an accounting office is used, the taxable profit is reduced by 20% (up to a certain threshold). The rates and allowances lead to an average tax burden for the one-man businesses;
- Germany:
  One-man businesses are most common. Different methods for income assessment: net worth comparison, net income, per unit valuation. Germany offers a beneficial investment reserve. In certain cases smaller farms are allowed to depreciate faster. An agricultural income allowance exists. The rates and allowances are slightly above the average;
- Hungary:
  Most common is the one-man business. Accounting is obliged, but for small-scale producers estimated income is based on norms / simplified entrepreneurial tax: only turnover is accounted. Carry back of losses is not allowed. Newly acquired assets can

be depreciated faster. Small-scale producers receive a small tax credit. The small one-man businesses have very favourable facilities;

- Poland:
  For most farmers, only agricultural property tax is relevant. EU subsidies are therefore not usually taxed;
- Spain:
  One-man businesses are most prevalent. Three systems, depending on turnover: bookkeeping, simplified bookkeeping and estimation based on norms. An optional tax rate for capital gains can be applied. On the other hand, capital losses cannot be carried back. Spain offers investment credits for environmental investments, R&D and export activities. The tax rates and allowances for the one-man business are rather unfavourable;
- UK:
  The partnership is widespread in the UK. Both taper and rollover relief reduce taxation on capital gains. Averaging of incomes reduces taxation on high incomes. Capital losses can only be offset against capital income. Extra capital allowances exist for energy saving or water efficient investments. The first year capital allowance is higher, which leads to advanced depreciation. The rates and allowances for partnerships are fairly favourable.

4. Comparison of other taxes

This chapter compares other taxes than income tax. The analysis includes the tax on property and wealth (4.1), inheritance and gift tax (4.2) and other taxes such as VAT and excise duties (4.3). Among taxes on property, the common situation is that agricultural real estate is usually subject to zero or reduced annual taxes and that preferential treatment is given in taxes imposed on transfers, especially on intergenerational transfers within the same family. The treatment of these taxes is likely to have some effect on the willingness of existing farmers to increase their scale of operation by purchase, of new entrants to invest in land and of existing owners to sell, each of which could have some impact on land prices. A much greater impact is likely to come from the many concessions on inheritance and gifts within families, where concessions can act as a component in tax planning by both present landowners and others intending to take advantage of what is on offer by acquiring land (OECD, 2005).

4.1 Tax on property and wealth

In the Netherlands, real estate tax is levied (table 4.1), however agricultural land is exempt from taxation. Additionally, the rental value of dwellings is included in the taxable income of personal income tax.

Table 4.1 Tax on property: object of taxation

Country	Object of taxation	Exemptions
Netherlands	real estate rental value of dwelling is fiscal income	agricultural land is exempt from real estate tax
Belgium	rental value of immovable property is fiscal income.	levy on own dwelling houses can be credited up to 12.5% of the cadastral income
Czech Republic	tax on land tax on buildings	agricultural land exempt for five years certain buildings are exempt
Denmark	land and owner occupied dwellings	reduction for agricultural land
France	real estate	exempt from property tax on developed and undeveloped land
Germany	real estate	-
Hungary	tax on land tax on buildings	agricultural buildings up to 100 m2 are exempt
Poland	tax on land, buildings and fixed assets	-
Spain	real estate	in years of drought or climatologic catastrophe, payment is suspended
UK	real estate	agricultural land and buildings exempt farmhouses lower valuation

All the other analysed countries also levy a tax on property. In the new EU countries, Poland, Hungary and the Czech Republic, separate taxes for buildings and land exist. In the Czech Republic, Denmark, France and the UK, exemptions for agriculture exist. In the Czech Republic, agricultural land is exempt for the first five years of usage. In France, agricultural land is exempt and in Denmark, taxation on agricultural land is reduced. In the UK, all agricultural land and buildings are exempt.

In the Netherlands, as well as in most of the other countries, public valuation is the basis for property taxation (table 4.2) and the taxation of property is based on the value of the property. The property taxation in the Netherlands has a regional character, which leads to different rates throughout the country.

Only in Hungary and Poland, the taxation is based on the surface. Since the valuation differs among the countries, the tax burden cannot be compared directly.

It is hard to say whether the property taxation in the Netherlands produces a competitive disadvantage or not. All countries levy some kind of property taxation and in many countries some kind of exemption for agricultural property exists. How much property tax is actually paid by farmers in the analysed countries is not exactly known. However, we do know that in the Netherlands, the average amount paid by farmers on property tax is about €600 per farm and the rental value of the main dwelling is about €1,000 before taxation (FADN).

Table 4.2 tax on property: valuation

Country	Valuation	Tax rate
Netherlands	public valuation	on average 0.24% 0.3-0.85%
Belgium	public valuation minus expenses (40%)	the rental value can be 18 to 50% (income tax is levied on that amount)
Czech Republic	land: market value buildings: ground floor area	0.75% arable land and grass 0.25% forestry
Denmark	public valuation (about 80% of the market value)	land: 0.43% (land-county), 06-1.2% (land-municipality) and 1% (owner occupied dwellings)
France	real property tax on developed land: half the estimated rental value real property tax on undeveloped land: 80% of the estimated rental value dwelling tax: estimated rental value	ranging from 2 to 42% depending on regional level and developed or undeveloped land
Germany	fiscal value	on average 1.5%
Hungary	market value or surface	€0.79 per m^2 or 3% of value land €3.58 per m^2 or 3% of value building
Poland	fixed asset: fiscal value land and buildings are taxed per m^2	€0.068/0.139 per m^2 land €0.115 for dwellings; €3,845/1,241 per m^2 buildings
Spain	cadastral value (reference to the market value, about 50%)	0.3/0.4%
UK	market value	on average €1,484 per dwelling

In the Netherlands, the net wealth tax was abolished with the introduction of the new fiscal system in 2001. However, net wealth is still taxed, but then as a component of the personal income tax. For the income tax, the worldwide average net value of the assets of the taxpayer at the beginning and end of the year is deemed to produce a 4% net yield. This yield is taxed separately at a rate of 30% as income from wealth (table 4.3). All business units and owner-occupied dwellings are exempt and a basic allowance exists. Additionally, land rented to successors usually is exempt from wealth taxation.

Only France and Spain also have a kind of wealth tax. In France, the tax rate ranges from 0.55-1.8% on the market value of the net wealth and in Spain the tax rate ranges from 0.2-2.5%. The valuation in all three countries is based on the market value of the assets. However, in both these countries, business assets are exempt.

Given the fact that in the countries that actually have a net wealth tax, business assets are exempt, this taxation has little impact on the competitive position of the agricultural sector.

Table 4.3 Wealth tax

Country	Valuation	Tax rate	Allowances and tax relief.
Netherlands	market value	1.2% (income tax)	excluded: business assets, owner occupied dwellings, usually agricultural land rented to successor basic allowance: €19,252 per person
Belgium	-	-	-
Czech Republic	-		-
Denmark	-	-	-
France	market value	0.55% - 1.8%	-
Germany	-	-	-
Hungary	-		-
Poland	-	-	-
Spain	self-assessment	0.2-2.5%	standard €108,182 allowance for dwelling (€50,253) and not more than 60% of income can be paid on tax, assets for businesses are not taxed
UK	-	-	the first €720,000 is exempt business assets are exempt

4.2 Inheritance and gift tax

For the continuation of farms, the transfer to spouses or children after the death of the entrepreneurs or the transfer of the farm during life is a very important phase. At this stage, gift or inheritance tax might be due. To compare the inheritance and gift tax, three aspects are important:

- the valuation of the property;
- allowances;
- tax rates.

These aspects must be analysed together to provide good insight into the impact of the inheritance and gift tax. Firstly, however, we will describe the three aspects separately.

Special facilities for business and agriculture either focus on the valuation or on the allowances and rates. These will be mentioned in the relevant paragraph. After describing the three dimensions of gift and inheritance tax, the impact on the competitive position of the Netherlands will be discussed in paragraph 4.2.4.

4.2.1 Valuation of the property

In the Netherlands, the general valuation of gifts or inheritances is the fair market value (table 4.4). However, for enterprises with structurally low returns (for example farms), the continuation value is the basis for the valuation, which is based on the expected returns of the company. In most of the other countries, the fair market value is the basis for the valuation of the assets, except for Germany and France. In Germany, houses are valued at the rental value and the rest of the assets are valued at market value. In France, the land value is only 50% of the market value in case of compensation of co-heirs.

4.2.2 Allowances

For the continuation of a family farm, the allowances for (agricultural) enterprises and the general allowances for children and spouses are very important (table 4.4). In the Netherlands, a large share of the continuation value of the farm is exempt. In 2004, 30% of this already favourable valuation was exempt, while this share rises to 75% in 2007. Besides this allowance for enterprises, general allowances exist for spouses and children, which are large for spouses but rather limited for children.

Many countries offer special allowances for enterprises and/or farmers. In Belgium, inheritance tax is not due at all. Denmark offers the facility to set the transfer price of real property at plus or minus 15% of the market value without paying gift tax. In France, 50% of the value of the shares or assets is exempt provided that at least one of the benefiaries will continue the business. In Germany, business property is partially exempt and from 2007, a complete exemption will exist for farms that are continued for a period of ten years. Hungary offers reductions for agricultural land and family farmers, while in Poland, small enterprises and farms (under conditions) are exempt from inheritance and gifts. In Spain, business property is exempt and for dwellings a limited exemption exists. The UK offers agricultural property relief for land and buildings and business property relief. Besides these facilities, all countries, except for Hungary, offer general allowances.

Table 4.4 Allowances and exemptions for the gift and inheritance tax

Country	Special allowances and exemptions	General allowances
Netherlands	30% of the continuation value is exempt if business is continued for five years (the percentage will be 60% in 2006 and 75% in 2007)	€496,324 spouses at most €8,483 for children older than 23 years
Belgium	inheritance tax is exempt for family businesses under certain conditions deferred wages	depends on the region, from €500 to €50,000
Czech Republic	-	tax relief depending on category and inheritance/gift ranging from small exemption €627 to complete tax relief in case of inheritance by persons in category 1
Denmark	valuation of real property +/- 15%	spouses are exempt for both inheritance and gift tax inheritance: €31,095, gift €5,700
France	principal residence, only 80% is taxable 50% except in case of continuation	€76,000 spouses €46,000 children
Germany	€225,000 business property (excess 65% taxable) from 2007 on, no tax due if the farm is continued for a period of ten years.	€307,000 spouses €205,000 children
Hungary	agricultural land only 50% of tax is paid (inheritance and gift) family farmer: only 25% of tax is paid (inheritance)	-
Poland	farms (under conditions) small enterprises	€5,318 for spouses and children
Spain	business and dwellings (dwellings exempt for 95% up to €122,606)	Spouse and older children €15,957
UK	agricultural property relief (land and buildings) business property relief	€375,000 is exempt

4.2.3 Tax rates

Table 4.5 shows the tax rates due by spouses and children on the received gift or inheritance. In all countries, except for Denmark, the rate increases with the amount received. Belgium offers a reduced gift tax rate for farmers. In Hungary, the taxation on received dwellings is less than on the remaining assets and in Spain, an additional surcharge is levied which is based on both the relation between the donor and the recipient and the net wealth of the recipient. The UK and France have the highest marginal rates. Poland and the Czech Republic show the lowest rates.

Table 4.5 Tax rates spouses and children

Country	Tax Rate spouses and children
Netherlands	5-27%
Belgium	depends on region, but about 3-30% gift tax is reduced to 3, 2 or 0% (depending on region) for certain kind of business (including agriculture)
Czech Republic	1-5% (gift tax), 0.5-2.5% (inheritance tax)
Denmark	children 15%
France	5-40%
Germany	7-30%
Hungary	11% (2.5% for dwellings) up to 21% (11% for dwellings) (rates for gifts are somewhat higher)
Poland	3-7%
Spain	7.65-34% (all categories) - also influence of capital already owned
UK	40% for chargeable transfers and 20% for chargeable lifetime transfers

4.2.4 Overview gift and inheritance tax

In most countries, inheritance and gifts are treated the same and it is therefore not important whether the transfer of the property takes place during life or not. Exceptions are Belgium, the UK, Hungary and the Czech Republic. In Belgium, business assets are (partially) exempt from inheritance tax under certain conditions. In the UK, gifts are generally not taxed at all, although tax is levied on certain gifts made in the seven years before death. In the Czech Republic and Hungary the gift tax rates differ from the inheritance tax rates. As we already mentioned, the impact of gift and inheritance tax should be analysed taking the three aspects valuation, allowances and rates into account (table 4.6).

Table 4.6 Impact of three aspects of inheritance and gift tax

Country	Valuation	Allowances	Rates	Overall
Netherlands	++	+++	0	++
Belgium	0	+++	++	++
Czech Republic	0	+++ (succession) 0 gift	+	++
Denmark	+	0/++ (spouses)	0	+
France	+	++	0	++
Germany	+	++	0	++
Hungary	0	+++	0	++
Poland	0	++	+	++
Spain	0	+++	0	++
UK	0	++++	0	+++

This leads us to the following summary per country:

– The Netherlands:
  The valuation, which is based on the continuation value of the farm, is rather favourable. Above this, in 2004 under certain conditions 30% (increasing to 75% in 2007)

of this value is not taken into account in the taxation. The basic allowances for children are fairly low, while for spouses the allowance is fairly high. The rates are moderate;

- Belgium:
  The assets are valued at market value. For family businesses, reduced regional rates apply, ranging from 0 to 3%. Inheritance tax is exempt for family businesses under certain conditions;
- Czech Republic:
  The farm is valued according to market value. No inheritance tax is due by close relatives. The allowance for gift tax is moderate, while the tax rates are fairly low;
- Denmark:
  The assets are valued at market value, except for transfers to family members, where the value can be set at plus or minus 15% of the market value without paying gift tax. Spouses are both exempt for gift and inheritance tax. For other recipients, there are small exemptions;
- France:
  The assets are valued at market value, except for land that is valued at 50% if coheirs are compensated. Under conditions, 50% of the assets is exempt if the business is continued by one of the beneficiaries. Only 80% of the value of the dwelling is taxed. The allowances and tax rates are not excessively high or low;
- Germany:
  In Germany the valuation is also based on a kind of continuation value. However, there is a lower limit of 80% of the value of the land. For businesses, an allowance exists and above this amount only 65% of the value is taxed. The allowances for children and spouses are fairly high and the rates are moderate. From 2007 on, no tax is due if the farm is continued for a period of 10 years;
- Hungary:
  The farm is valued according to market value. No general allowances exist, but agricultural land and assets are only taxed for 50%. Family farmers are only required to pay 25% of the tax. The rates are moderate and do not differ very much over the brackets;
- Poland:
  The assets are valued at market value, but farms and small enterprises are exempt under certain conditions. The tax rates are fairly low;
- Spain:
  The assets are valued at market value. Business assets and dwellings are 95% exempt, but there is a limit to the exemption of the deceased's residence (€122,606). Small allowances exist for spouses and older children. The rates are comparable with the other western European countries;
- UK:
  No gift tax is due in the UK, while large allowances (agricultural and business) prevent inheritance taxation.

Compared to the other countries, the facilities for the taxation around farm take-overs in the Netherlands are comparable with many of the countries studied. Many countries offer facilities for (small) enterprises or farms that lower or prevent gift or inheritance tax. The UK offers by far the most favourable system. Countries with a less favourable gift and inheritance taxation are Denmark (high valuation, minimal exemptions) and France (high valuation, no exemptions).

To relieve farm take-over, governments can make different choices. In the Netherlands, a general arrangement for businesses with low returns has been introduced, while in other countries more agricultural specific facilities exist. If and how farm take-over is facilitated is a political choice.

4.3 Other taxes

4.3.1 Property transfer tax

In the Netherlands, a transfer tax of 6% is levied. However, the transfer of agricultural land is usually exempt and the transfer of business real estate from parents to children is always exempt.

In all the other countries studied, a transfer tax is levied, although in many cases exemptions exist for businesses, land or relatives (table 4.7). The rates are the highest in Belgium and Hungary.

Since all countries levy a transfer tax and most of the countries have applicable exemptions, the effect on the competitive position of the agriculture in the examined countries is limited.

Table 4.7 Transfer tax

Country	Rate	Exemptions
Netherlands	6%	exemptions for agricultural land (most cases a)) and business real estate by children from parents first owner of building is exempt
Belgium	12,5% (10% in flanders)	in some cases land and dwellings are taxed at a lower rate
Czech Republic	3%	first owner of buildings is exempt
Denmark	0.6%	-
France	4.8%	lower rate if rented land is bought by the tenant (0.6%)
Germany	6% on land transfers	only land is taxed transfers between relatives, inheritance, gift and small transfers are exempt
Hungary	2% (dwellings)/10%	in certain cases of land concentration
Poland	2%	land in case of social insurance program
Spain	4-7%	transfer to relatives sometimes exempt
UK	0-4% depending on value and location	only land is taxed exemption of transfer of assets on death

a) From 1 January 2007, property transfer tax on agricultural land is not due if the land is used for agricultural production for the next 10 years.

4.3.2 Value Added Tax (VAT)

In the Netherlands, the standard VAT rate is 19%, with a reduced rate of 6% (table 4.8). Both rates are somewhat lower than the average of the analysed countries. Except for Denmark, all countries offer a reduced rate that is generally applicable to agricultural products.

Whether the reduced VAT rate for agricultural products is actually a tax benefit for farmers is not quite clear. Reduced VAT rates on agricultural output suggest that there is indeed some benefit. In general the conclusion is that it is actually a benefit when viewed at aggregate level, but that the extent of that benefit to agricultural producers is difficult to ascertain and to quantify because it is shared with other economic actors and final consumers (OECD, 2005).

Table 4.8 VAT rates

Country	Standard rate	Reduced rate
Netherlands	19%	6%
Belgium	21%	6%
Czech Republic	19%	5%
Denmark	25%	-
France	19.6%	5.5%
Germany	16%	7%
Hungary	25%	5% (foodstuffs 15%)
Poland	22%	3% (not all agricultural products)
Spain	16%	7%
UK	17.5%	5%

The treatment of farmers within the VAT rules is sometimes different from other types of businesses (table 4.9). In the Netherlands, farmers are exempt from full VAT taxation. This exemption is called the agricultural arrangement. This implies that farmers may not charge VAT and may not deduct VAT payments. Purchasers of the products receive a flat rate deduction of 5.1%. Farmers may opt for full VAT taxation.

Table 4.9 Special systems for agriculture

Country	Value Added Tax agriculture
Netherlands	agricultural arrangement, fixed rate reduction of 5.1% of buyers of the products.
Belgium	agricultural arrangement, compensation is 6% above the sale price.
Czech Republic	relief to VAT if their turnover is less than €31,358 (general facility).
Denmark	small farmers less often returns and payments.
France	fixed system available for small producers. reimbursement by government.
Germany	fixed arrangement (9% agricultural goods)
Hungary	fixed arrangement for small-scale producers. compensatory surcharge of 12% for vegetable and 7% for animal products.
Poland	provision for farmers (5% increase for products bought from farmers).
Spain	special system for small farmers 7%.
UK	flat rate addition 4%.

Other countries offer comparable facilities for:

- all farmers: Belgium, Germany, Poland, and UK;
- small farmers: Denmark, France, and Spain;
- small entrepreneurs: Czech Republic, Hungary.

According to the OECD (2005), the simplified systems might lead to over-compensation. The compensation is to offset farmers for their inability to reclaim VAT paid on purchased inputs, but it may in reality exceed the official estimate. This excess can be seen as a form of subsidy.

4.3.3 Excise duties and environmental taxes

In the Netherlands, the excise duty paid by farmers per litre of diesel amounts €0.04656 (table 4.10). In Belgium, farmers do not pay excise duty at all. All the other countries levy an excise duty on diesel used for agricultural vehicles ranging from €0.0327 in Denmark to €0.37 in France.

Table 4.10 Excise duty paid on agricultural diesel

Country	Excise duty agricultural diesel per litre
Netherlands	€0.04656
Belgium	Exempt
Czech Republic	€0.1872
Denmark	€0.0327 (CO_2-tax)
France	±€0.37
Germany	€0.2556
Hungary	€0.067
Poland	€0.222
Spain	€0.088
UK	€0.0621

Table 4.11a Environmental taxes

Country	Environmental taxes	Exemptions
Netherlands	taxes are levied on ground water, energy, waste and fuel	glasshouse: exemption for energy.
Belgium	water, groundwater, energy and manure	no
Czech Republic	no taxation, only fees	no
Denmark	energy, herbicides and pesticides	heavy energy industries like pot plant producers have their CO_2 tax refunded
France	several taxes: water, energy, waste, fuel	no
Germany	taxes are levied on electricity and fuel	rates are in general lower for agriculture
Hungary	none	-
Poland	electricity	-
Spain	none	-
UK	landfill tax climate change levy	no

Table 4.11b Energy taxes

Country	Electricity rate per KwH	Gas rate per m^3	Exemptions
Netherlands	6.54 - 0.05 eurocent	14.29-0.75 eurocent	gas: 1.295-0.75 eurocent for greenhouses.
Belgium	0.191 eurocent	1.13 eurocent	gas exemption for large-scale users.
Czech Republic	-	-	-
Denmark (excluding CO2 tax)	1.3 eurocent (1.2 for heating)	27.4 eurocent	producers are exempt from CO2 tax.
France	0.05 or 0.8 eurocent (depending on voltage)	36 eurocent for large scale green house producers	gas is exempt for small (<511,000 m3) users and greenhouses
Germany	1.23 eurocent > 25MwH else 2.05 eurocent	3.58 eurocent	
Hungary	0.074 eurocent	0.7 eurocent	
Poland	0.44 eurocent	-	
Spain	regional	regional	
UK	0.63 eurocent	2.15 eurocent	

In the Netherlands, environmental taxes are levied on ground water, energy waste and fuel (table 4.11). Except for Hungary, Poland and Spain, all the other countries studied levy environmental taxes, although the base for the basis for the taxation differs. In the Netherlands, Belgium, Denmark and France, energy-intensive agricultural sectors have (partial) exemptions.

4.3.4 Other taxes

In the Netherlands, polder tax (*waterschapsheffing*) is levied (table 4.12). In 2004, the average amount paid was €1,400 per farm. In Belgium additional regional taxation takes place in Flanders and a tax is levied on empty or neglected building. In the Czech Republic, farmers pay road tax, although a reduction of 25% is applicable.

Table 4.12 Other taxes

Country	Other taxes
Netherlands	polder tax
Belgium	provincial tax in Flanders tax on empty or neglected buildings.
Czech Republic	road tax, 25% reduction.
Denmark	-
France	-
Germany	-
Hungary	-
Poland	-
Spain	-
UK	-

4.4 Overview

This paragraph gives an overview of the relevant taxes other than income taxes. For each country, the following highlights are relevant:

- The Netherlands:
  Agricultural land is exempt from real estate tax. The rental value of the home is included in personal income for personal income tax. Real wealth tax no longer exists, but taxation of wealth is currently a component of the personal income tax. Business assets are exempt. For the inheritance tax, the continuation value is used for the valuation. In 2007, 75% of the continuation value will be exempt. Transfer tax is not usually levied on agricultural land. Transfer of business real estate to children is exempt. The agricultural arrangement can be applied to avert full VAT taxation. Environmental taxes are levied on ground water, energy, waste and fuel. Glasshouses are partially exempt for the use of energy. Additional *polder tax* is levied;
- Belgium:
  Rental value of immovable property is fiscal income. The family home is exempt from real estate tax. Family businesses are exempt from inheritance tax under certain conditions. In certain cases, a lower rate of transfer tax is applicable to land and dwellings. The agricultural arrangement can be applied to avert full VAT taxation. Additional taxes are levied on the use of water, ground water, energy and manure. Flanders has an additional provincial tax and a tax on empty or neglected buildings;
- Czech Republic:
  Land is taxed, but agricultural land is exempt for the first five years of agricultural usage. For the tax on buildings, some buildings are exempt. Large exemptions exist for close relative in case of inheritance. For smaller farms, VAT relief is available. No environmental taxes are levied;
- Denmark:
  Land and owner-occupied dwellings are subject to real estate tax, although agricultural land is subject to a tax reduction. The valuation of the property in the case of a gift can be plus or minus 15% of the market value without leading to taxation. Spouses are exempt from both inheritance and gift tax. Small farmers are less frequently required to file their VAT administration. Denmark levies environmental taxes on energy, herbicides and pesticides. Heavy energy industries like pot plant producers have their CO^2 tax refunded;
- France:
  Real estate tax is levied, but land is exempt. Wealth tax is levied. For the inheritance and gift tax, only 80% of the value of the principal residence is taxable. A lower rate of transfer tax is levied if a tenant buys rented land. VAT arrangement is available for small producers. Several environmental taxes are levied on water, energy, waste and fuel;
- Germany:
  Real estate tax is levied. A large exemption for business property exists for the inheritance and gift tax. Transfer tax is only levied on land and transfers between relatives. Transfers in case of inheritance or gift and small transfers are exempt. Using

the fixed arrangement can avert full VAT administration. Taxes are levied on electricity and fuel, but in general the rates are lower for agriculture;

- Hungary:
  Land and buildings are subject to real estate tax, although small plots of land are exempt. For gift and inheritance tax, exemptions exist for both agricultural land and family farmers. In certain cases of land concentration, no transfer tax is due. Small producers can use a fixed arrangement for VAT. No environmental taxes are levied;
- Poland:
  Land, buildings and fixed assets are subject to real estate tax. Farms are exempt from gift and inheritance tax under certain conditions. No transfer tax is levied in the case of social insurance programmes. A facility exists to avoid VAT administration. No environmental taxes are levied;
- Spain:
  Payment of real estate tax might be suspended under certain conditions. Wealth tax is levied. Businesses and dwellings (up to a limit) are exempt from gift and inheritance tax. Transfers to relatives are sometimes exempt from transfer tax. Small-scale farmers can avoid VAT administration. No environmental taxes are levied;
- UK:
  Agricultural land and buildings are exempt from real estate tax and farmhouses have a lower valuation. Both the agricultural and business property relief prevent taxation of inheritances. Gift tax does not exist. Property transfer tax is only levied on land and is not levied in case of inheritance. Using the fixed arrangement can avert VAT administration. Additional environmental taxes are levied on energy and landfill.

5. Discussion and conclusions

5.1 Discussion

This report analysed a range of different taxes and their impact on the competitive position of the agricultural sector in the Netherlands. It would be very nice to conclude the report with a ranking of the ten countries according to how favourable or unfavourable the complete tax system is for farmers in that country. However, comparing tax systems is very complicated. As farms within a country are not all identical but differ in size, profitability, capital intensity, stage in the farm life cycle, etcetera, the competitive position of farmers will vary accordingly. The same applies to all the other analysed countries. The impact on the competitive position of farmers consequently differs between farmers within one country.

We therefore chose for another approach that will not lead to a ranking of the countries but will give more insight into which aspects of the analysed tax systems show the greatest differences between the analysed countries. Thus it was not essential to weight the different taxes in one ranking. One aspect of taxation (for example VAT) might be beneficial in one country, while the inheritance and gift tax might be unfavourable. The balance of these favourable and unfavourable aspects might be positive for one farm and negative for another (again depending on aspects like size, etcetera).

In this report we analysed the tax burden and we did not look at how the money is spent by the government. However, we are aware that the tax burden only tells one part of the story. The other part is how the tax money is spent. Basically, one would expect a higher tax burden to be positively correlated with higher welfare measures, higher pensions, better infrastructure, etcetera. Thus a higher tax burden does not necessarily imply an unfavourable overall treatment of the farm. Moreover, taxation can also be used to stimulate or discourage certain behaviour. These aspects of taxation are not included in this analysis.

This report describes a large number of special agricultural facilities, which usually exist for a rather long period. In that way, they have never been subject to a check for state aid. This report shows that all countries have facilities that focus on the agricultural sector especially. It might be interesting for the Directorate General for Competition to investigate whether these facilities disturb competition in the agricultural sector.

5.2 Conclusions

As already mentioned in the introduction, the aim of the current research was to provide information about the tax systems in Europe and analyse whether and how the tax systems affect the competitive position of Dutch Agriculture.

The Dutch tax system has some aspects that are quite favourable compared to the other analysed countries. The following features of the Dutch tax system are especially relevant for the competitive position of the Netherlands:

- most farms are *partnerships*, which leads to reduced tax burden compared to one-man businesses, which can be found in most of the other analysed countries;
- the Netherlands presents a broad range of *investment facilities*. The facilities for environmental investments are mainly introduced to compensate the additional costs, but the general investment facility offers a benefit to the farmers;
- the *rental value of the home* is included in the personal income for the personal income tax;
- the *social security contributions* are incorporated in the tax system. In many countries, the contributions show minimum levels. The Dutch situation is especially beneficial for low-income farmers;
- the total *of tax rates, social security contributions and general allowances* are about the average of the analysed countries;
- the *averaging facility* and the *loss transfer* facilities are favourable compared to the other countries. Carry back of losses is not usually allowed in the other countries;
- the *agricultural allowance* reduces the taxable gain on agricultural land. However, many countries offer facilities to reduce capital gains.

Although the Netherlands may seem to have a beneficial package of fiscal rules for personal income tax, some countries offer facilities that are not present in the Netherlands:

- In the Netherlands, the taxable income is based on *accounting*. Whether this is disadvantageous for the taxable income compared to the countries with per unit valuation or estimation depends on the individual characteristics of the farm. However, applying these facilities is based on free choice, which implies that applying the normative assessment is based on a free choice and consequently will be favourable in most cases. Analyses based on the FADN-RICA database also indicate that in most countries the norms for the normative assessment produce lower assessed incomes than the actual ones (see appendices). However, since the per unit valuation and estimation is usually only allowed for small farmers, it discourages farm enlargement;
- Belgian farmers using accounts can choose between including the *EU subsidies* in the normal fiscal income or tax them separately at the special tax rate. However, the special tax rate in Belgium is not favourable in all situations. Farms applying the per unit valuation scheme might actually have a low or even negative income, which implies that they would not have paid any taxes over the subsidies if they were included in the normal fiscal income;
- Belgium offers special rates for *capital gains* and France and Spain offer special rates for assets held longer than a certain period. Special facilities limit that taxable capital gain. In the UK a general taper relief reduces chargeable gains according to the length of the period of possession. In France, certain entrepreneurs are exempt. In the UK, no capital gains tax is due in case of the death of the entrepreneur;
- Germany, France, Poland and Spain offer a special old age provision for farmers.

Table 5.1 [dit is zelfde tabel als in samenvatting!] Supportive facilities income taxation

Country	Tax burden	Structure	Investment & R&D
Netherlands	- Averaging - Favourable loss transfer - Agricultural Allowance - Partnership - Favourable rates and basic allowances/tax credits	- No normative assessment for smaller farmers - Continuation of book values	- Reinvestment reserve - Environment related investment facilities - Investment allowance - Accelerated depreciation starting entrepreneurs
Belgium	- Special rate EU subsidies - Normative assessment	- No normative assessment for smaller farmers - Continuation of book values - Special tax rate in case of quitting farming	- Roll-over relief - Energy saving - Accelerated depreciation small enterprises
Czech Republic	-	-	- Investment allowances
Denmark	- Company scheme - Allowance for capital gains	- No normative assessment for smaller farmers. - Continuation of book values	- Extra depreciation R&D
France	- Quotient system - Deduction for risks - Facilities for capital gains - Normative assessment - Favourable rates and basic allowances/tax credits	- Continuation of book values	- Investment deduction
Germany	- Normative assessment	- Continuation of book values - Selling farms: 50% reduction in case of old or disabled farmers and - 'Fünftelregelung'	- Investment reserve - Investment incentives - Advanced depreciation (small farms)
Hungary	- Normative assessment	-	- Extra depreciation some assets
Poland	- Agricultural land tax - No taxation of EU subsidies	- No normative assessment for smaller farmers.	-
Spain	- Special rate for capital gains - Normative assessment for smaller farms	-	- Investment credits environmental investments - Credits (R&D and export activities)
UK	- Averaging - Taper relief - Partnership - Favourable rates and basic allowances/tax credits	- No normative assessment for smaller farmers.	- Roll-over relief - Extra capital allowances (environemtal investments) - Higher first year allowance for other investments

Table 5.1 shows a summary of the facilities in the income tax system, categorized by whether they support the agricultural sector since they:

- reduce the tax burden;
- enhance the structure of the agricultural sector;
- support investment and R&D.

The analysed countries can roughly be divided in three groups:

- Countries which have no special rules for small farmers and have facilities to reduce the tax burden. Various investment incentives exist: The Netherlands, Belgium, France and the UK;
- Countries that have a system that is moderately supportive: Denmark, Germany and Poland;
- Countries that do not have a very supportive tax system: Spain, Hungary and Czech Republic.

Other taxes

Compared to the other analysed countries, the following aspects of the Dutch taxation are particularly worth noting:

- Agricultural land is exempt from *real estate tax*. In most of the analysed countries some kind of exemption or reduction exists;
- Real *wealth tax* no longer exists, but taxation of wealth is currently a component of personal income tax. Just like the other countries with net wealth tax, business assets are exempt;
- For the inheritance tax, the *continuation value* is used for the valuation. In 2007, 75% of the continuation value will be exempt. Most countries offer favourable facilities for farmers;
- *Transfer tax* is usually not levied on agricultural land[1]. Transfer of business real estate to children is exempt. In all the other countries studied, a transfer tax is levied, although in many cases exemptions exist for businesses, land or relatives;
- The *agricultural arrangement* can be applied to avert full VAT taxation. Most countries offer comparable facilities, although not always available to all farmers;
- *Environmental taxes* are levied on ground water, energy, waste and fuel. Glasshouses are partially exempt for the use of energy. Environmental taxes are levied in all other countries except for Hungary, Poland and Spain;
- Additional *polder tax* is levied;

A comparison of the other taxes teaches us that the differences are not that large. In many cases exemptions exist for all entrepreneurs or specifically for farmers.

[1] From 1 January 2007, property transfer tax on agricultural land is not due if the land is used for agricultural production for the next 10 years.

5.3 Suggestions for further research

This research was carried out in the period 2005/2006, based on the tax year 2004. Tax systems are continuously subject to change, not only with regard to tax rates, but also with regard to changes in facilities and accounting rules. Thus, a periodical update would be recommendable.

In this report we focused on the taxation of domestic farmers, but the point of view of Dutch farmers with side businesses abroad might provide interesting insights.

From this research we can conclude that the per unit valuation and estimation of income is still practically a black box. Information about standards is usually available, but it is not quite clear which systems are beneficial and which systems are not.

It would also be very interesting to know how much money is actually paid by farmers on the different types of taxes.

Literature[1]

Agricultural Accountancy Department, *The results obtained by individual agricultural holdings conducting accountancy for the year 2003.* Agricultural Accountancy Department, Warsaw, 2004. (zie ook literatuurlijst Polen!)

Bont, C.J.A.M. de and S. van Berkum (red.), *De Nederlandse landbouw op het Europese scorebord.* LEI, Den Haag, 2004.

Boone, K. and K. van Bommel, 'Kosten melkquotum in Nederland veruit het hoogst'. In: *Agri-monitor* (June 2001).

CLE, *Agriculture and horticulture in Flanders 2004.* CLE, Brussels, 2004.

EFAC, *Taxation of Agriculture in Europe.* Kluwer, Deventer, 2000.

European Commission (Directorate-General for Agriculture), *Agricultural Situation in the Candidate Countries; Country Report on the Czech Republic*. EC, 2002.

European Commission (Directorate-General for Agriculture), *Agricultural Situation in the Candidate Countries; Country Report on Hungary*. EC, 2002.

Eurostat, *Statistics in focus: Structure of agricultural holdings, XX 2003.* Eurostat, Luxembourg, 2004 (available for all 10 countries except for Poland).

Eurostat, *Structures of the taxation systems in the European Union*. Eurostat, Luxembourg, 2004.

Lissitsa, A. and A. Balmann, *Efficiency and productivity of farms in post-unification Germany*. Debrecen, Hungary, 2003.

Ministry of Agriculture and Rural Development (Poland), *Agriculture and food economy in Poland*. Warsaw, Poland, 2004.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security.* OECD, Paris, France, 2005.

[1] Literature used for the description of the tax systems of the separate countries is stated in the appendices.

Veen, Hennie van der , Karel van Bommeld and Gabe Venema, *Vestigingssteun voor bedrijfsopvolgers in de agrarische sector: Een analyse van drie mogelijke varianten*. Den Haag, 2001.

Vial, B., *French agriculture in the context of Europe*. SGCI, France, 2001.

www.landbrugsraadet.dk
www.country-studies.com

Appendix 1. The Netherlands

In the Netherlands there were about 85,400 agricultural holdings in 2003, which means a 16% decline compared to 2000. These holdings employed 185,800 AWUs (annual work units) and used 2 million ha of agricultural area, which averages 23.5 hectare per holding (compared to 20 ha in 2000). Amongst these 85,400 agricultural holdings, 23% used less than one AWU, while 36% used 2 or more AWUs. About 30% of the holdings used less than 5 ha, while 2% used more than 100 ha. Most farms (90%) were specialised and about 10% were mixed holdings. About 1% practised organic farming (Eurostat, 2005).

Due to environmental and other measures, there is a tendency towards fewer and bigger farms. The sector has developed a number of sidelines in rural areas, such as recreation (for example mini camping sites, riding schools) and nature conservation (management areas, hedgerow management). Environmental protection is very important. This has led to a reduction of phosphate production per animal per year (EFAC, 2000).

Important reforms have been undertaken on the tax revenue side in recent years: a major fiscal reform was planned by the 1998 coalition government and implemented on 1 January 2001, reducing both personal income tax and social contributions and increasing energy taxes. The 2001 reform thus implied a shift from direct to indirect taxation and also an across-the-board reduction in the overall tax burden. Furthermore, due to the economic slowdown which started in 2001, significant shortfalls occurred in tax revenues. The level of the overall tax burden declined to 39.5% in 2002. It is currently below the Community average. Indirect taxes, direct taxes and social contributions each account for about one third of total tax revenues. In the last decade a shift occurred from direct to indirect taxation, making the tax revenue less sensitive to the business cycle. The weight of personal income tax has decreased since the second half of the 1990s because of the gradual erosion of the aggregate tax base and a reduction in the statutory income tax rates. In recent years this trend was reversed due to the Tax Reform 2001. The Tax reform created a shift from social security contributions to taxes. Most allowances were replaced by tax credits. These credits are applicable to both personal income tax and social security contributions. The increased share of social contributions in the credit compared to the former allowances is the main reason for the reversed trend. In addition, a transfer of funds from the government to the social security funds has been introduced (Eurostat, 2004).

There is a tendency to reduce the number of specific agricultural facilities in favour of more general ones. Besides the agricultural allowance, which exempts part of the capital gains on land from taxation, there are few specific agricultural facilities.

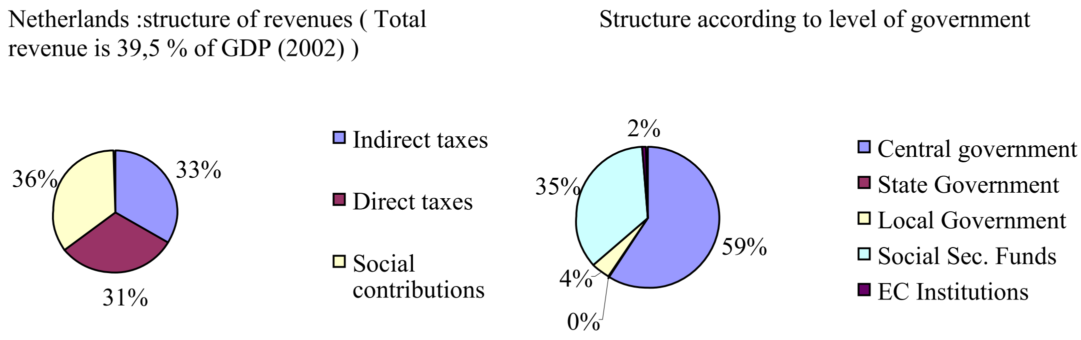


Figure A1.1 Structure of Dutch tax revenue according to total revenue and level of government.
Source: Eurostat (2004).

A. Tax on income, profits and capital gains

1. Main tax system (income or corporate tax)

The main business form is the one-man business and the partnership, which are common in family situations (transferring the business) and between spouses. Partners in a partnership are individually taxed. Due to the fiscal advantages, the partnership is very popular between spouses and in the process of farm transfer within the family.

About 4% of the holdings are a legal person and they are primarily found in the glasshouse sector. Consequently, the main tax system is the income tax.

2. Method of income calculation

There is not a specific income category for income earned by farmers. All farmers must have accounts. The cash principle, which means bookkeeping when payment is performed, cannot be used for income tax or corporate tax purposes. Profits from an enterprise must be determined according to the principles of 'sound business practice'. To ensure that income and costs are allocated fairly to either the business or the person, a system of 'capital labelling' is employed. Operating costs can be deducted from the income and operating assets can be depreciated.

Received EU subsidies are included in the income. Social security contributions are deductible for corporate income tax, but not for personal income tax.

3. Averaging of income and loss transfer allowed?

Averaging is allowed, although a threshold of €545 reduces the relevance of this facility. The threshold implies that the averaging facility can only be applied if the reduction in income tax due is at least that amount.

If a business makes a loss in any year, the negative income may be set off against the positive incomes from one of the three preceding calendar years (carry-back) or against incomes made in future years (carry-forward). There is no time limit for using the carry-forward option.[1]

Because of the progressive tax rate, it may be wise to distribute the profit over several persons. There are various forms of partnerships for this purpose. Because spouses are taxed separately, a partnership between man and wife is possible. As well as the advantage of a lower tax rate, there is the advantage that some allowances will be doubled.

EU subsidies are regarded as normal income and are consequently taxed.

4. Depreciation and investment incentives

Fixed or operating assets are valued by calculating the total of the purchase or production costs less depreciation. From the moment the equipment is put into operation, the depreciation must be allocated to the appropriate years. This can be done in a variety of ways, which must be applied in accordance with 'sound business practice':

- straight-line depreciation;
- reducing balance depreciation;
- decreasing percentage;
- production output depreciation.

A precondition for depreciation is that the asset must be liable to wear and tear. Depreciation is based on the historic cost price, useful life and the salvage value of the asset. Production rights can be depreciated if a price is paid to acquire them. Depreciation of land is generally not allowed. The depreciation for buildings is generally 3 to 4% per year. For stables, greenhouses, etcetera, shorter periods have been agreed with the tax authorities. They are often written off in 15 or 20 years. The farmhouse can be regarded as option capital: it can be either private or business. Dairy cattle are classed as operating capital. Ill and old animals can be written off.

Free depreciation is allowed for assets, which are important for environmental protection (specified by the government). Self-employed persons in the start up phase are allowed to apply accelerated depreciation.

Besides the accelerated depreciation, extra allowances exist for investments. Self-employed persons who invest in operating assets may deduct a percentage of the investment made from their taxable income. The aim is to encourage investment. The percentage varies from 3 to 24%: the lower the amount invested, the higher the percentage. Above €286,000, the percentage allowance is 0%. Some investments are excluded such as land, quotas, living accommodation and cars. In addition to the general investment deduction, an energy-saving and environmental investment deduction is granted. The energy deduction is 55% of the invested amount while the environmental investment deduction has a rate ranging from 15 to 40%.[2] Either the energy or the environmental investment deduction applies and the type of investment has to be listed in a decree.

[1] For the personal income tax, the carry forward of losses will be limited to 9 years from 1 January 2007 on.
[2] From 1-1-2007, the maximum rate will be 60%.

5. *Capital gains tax*

Capital gains and losses realized during the course of a business are included in the enterprise's profit. However, the agricultural allowance provides tax relief on capital gains made on agricultural land. In principle, the gains made by a farm on account of the value of land (including land that has been built on) remain free from tax. However, there are two exceptions: changes in value arising in the course of the business and changes in value that are above the market value of the land if the land was still to be used for agriculture (agricultural value).

A company alienating an asset may create a reinvestment reserve if the asset's sales proceeds exceed its book value for tax purposes. The reinvestment must take place within a period of 3 years or the reserve must be added to the taxable profits. The new asset is not required to have the same economic function, unless the alienated asset is not depreciated or is depreciated over a period of more than ten years.

A special kind of capital gain arises at the moment when the farmer quits farming. An allowance of €3,630 can then be applied. Above that, a pension annuity allowance can be applied in case of discontinuation. The level of this allowance depends on the age of the farmer and may not exceed €396,000. This allowance only postpones taxation.

In the case of a farm transfer, it is possible to avoid taxation. In this case the assets in the successor's balance sheets must be exactly the same as the retiring farmer's balance sheet. The new owner takes over the old owner's 'tax situation'. The facility can also be applied if the farmer has deceased. Furthermore a residence which is included in business capital can be valued at 60% of its liquidation value if the residence remains available to the household of the deceased entrepreneur (Ministry of Finance, 2004).

6. *Allowances and tax reliefs.*

The Dutch tax system features some general tax credits. The first one is €1,825 and applies to anyone living in the Netherlands who is taxable. The labour tax relief applies to people who are in employment or have profit from their enterprise. It depends on the level of your income and your age, but may not exceed €1,935. For single parents, two tax reliefs exist: the single parents' relief (€1,831) and additional single parents relief (max €1,831). The level of the latter is 4.3% of the taxable income from work or the profit. There are also additional tax reliefs but these are not generally applicable and the amounts are limited.

If there is no partnership between man and wife, the spouse who is working in the business can choose to have a deduction from the income of the person who is taxed for the business profit (co-operation allowance).[1] The deduction is related to the annual amount of worked hours, and is calculated as a portion of the profit, ranging from 1.25 to 4%.

Tax subjects who are regarded by the tax authorities as self-employed are entitled to the self-employed persons' tax allowance. This is a fixed amount that can be deducted from the taxable income. The level of the allowance depends on the size of the profit and ranges from €3,194 for profits above €54,765 to €6,585 for low profits. For self-employed persons

[1] For the comparability between the countries, we mention the cooperation and self-employed persons' allowance in this section and not in the section about the profit calculation.

in the start up phase, an additional amount of €1,941 can be deducted. Special facilities exist to provide fiscal benefit from loans to entrepreneurs investing in specific environmentally-friendly operating resources and projects such as organic farming.

A group of facilities exist that allow for the building up of a provision for old age. These facilities are general, but they are very important for the agricultural sector. Premiums paid for annuity and pension insurance policies are deductible from taxable income. On the other hand, the annuity and pension payments received are subject to taxation. The premiums paid are subject to statutory maximum amounts and depend on whether the tax subject has no other retirement benefit plan and whether his provision consequently falls short of what is generally accepted as desirable. Employees are generally provided with a pension plan. Owners of a private limited company are categorised as employees for pension schemes. The pension capital can then be used as operating capital of the company. This actually means that the balance sheet shows a pension facility for the director, whereas the pension capital has not been separated from the operating capital. Because owners of unincorporated business enterprises cannot have a self-managed pension provision, a special arrangement was set up to provide them with a comparable facility. This allows them to maintain a reserve: the self-employed persons' pension allowance (in Dutch: 'FOR'). The maximum annual allocation is 12% of the profits made, with a maximum of €10,799.

The forestry allowance provides tax relief on gains made from forestry activities in the Netherlands. The allowance only applies if the business operations are aimed at maintaining the forest.

7. Tax rates (including social security and other obligatory contributions)

Table A1.1 shows the tax rates for single persons. The 33.4% and 40.35% rates include, respectively, 1% and 7.95% income tax, the remaining 32.4% in both cases being national social security contributions.

Table A1.1 Tax rate for single persons 2004

Annual taxable income	Marginal rate (%)
Up to 16,265	33.4
16,265-29,543	40.35
29,543- 50,652	42
Over 50,652	52

Source: IBFD (2004)

Self-employed persons must make contributions for medical care (situation 2004). The medical care insurance contribution is levied at a rate of 8% on net business profits up to €20,800 based on the first 3 years of the preceding 5 years. Entrepreneurs with a higher income must be privately insured for medical care. The contribution is deductible for income tax purposes only to the extent that it exceeds, together with other medical expenses, the threshold for the medical expense deduction.

As of 1 January 2006, all Dutch residents are obliged to take out health insurance. The residents will pay a nominal premium, irrespective of income, age or health status.

The residents can choose with which insurer they want to take out health insurance and are free to change every year. The income-related contribution is a percentage of the income. The contribution is calculated on income up to €30,015. Individuals pay 6.5%, up to a maximum of €1,950 per year. Employees may receive reimbursement for this contribution. This reimbursement will be considered to be a taxable benefit. Individuals who have to pay the contribution themselves will pay 4.4%, up to a maximum of €1,320 per year.

B.1 Tax on property

1. Object of taxation

Real estate tax is levied on persons who possess and/or use a real estate property. The basis for the taxation is the value of the real estate. This taxation is a local taxation and belongs to the competency of the communities.
The rental value of the own dwelling is included in the fiscal income.

2. Valuation

The taxable base for both the real estate tax and the income tax is established by public valuation.

3. Allowances and tax reliefs

Agricultural land is relieved for real estate tax. Real estate tax is deductible from the income if the property is used commercially.
The first €12,500 is excluded and beyond €165,278 no tax is levied.

4. Tax rate

The rates of the real estate tax are variable. The average rate is 0.24% in 2004.[1] On average, the farmers paid about €600 in 2004 for their business property (LEI, Farm Accountancy Data Network).

The rate of the fiscal value of the dwelling, which is included in the income, ranges from 0.3% to 0.85%. The average rental value of the main dwelling was about €1,000 in 2004 (LEI, Farm Accountancy Data Network,), which results in an amount of at most €520 (maximum tax rate 52%) tax due.

B.2 Tax on wealth

1. Object of taxation

Net wealth tax was abolished in 2001. However, it is incorporated in personal income tax (box 3).[2] Assets used for businesses are exempt from the box 3 taxation.

---

[1] Vereniging Eigen Huis: Lokale Woonlasten Onderzoek 2003-2004 (2004).
[2] For comparison with other countries, it is included in this section.

2. Valuation

The taxable base for wealth tax is the market value of the assets.

3. Allowances and tax reliefs

A number of assets are excluded in box 3 of the income tax such as owner-occupied dwellings and business assets. Agricultural land that is leased to the successor is usually exempt from box 3 taxation. A basic allowance of €19,252 (double for married couples) is deducted from the taxable base.

Certain investments in the general interest are excluded from the taxable base up to €51,390 per person. Qualifying investments include investments in approved 'green funds' and investments with banks and other financial institutions and investment funds that invest in approved social-ethical projects. Above this, forests and nature are also excluded.

4. Tax rate

For the income tax, the worldwide average net value of the assets of the taxpayer at the beginning and end of the year is deemed to produce a 4% net yield. This yield is taxed at a flat rate of 30%, resulting in a tax of 1.2% on the net assets.

C. Inheritance and gift tax

1. Valuation

The taxable base is the fair market value of the acquired assets less the liabilities. For businesses with structurally low returns compared with regular business (for example agricultural holdings), another valuation method can be used. The farm is valuated according to the Discounted Cash Flow method with special fixed standards for determining cash flow (for example per hectare arable farms or per kg quota for dairy farms). This average is added to the salvage value of the assets belonging to the business. The total is called the 'continuation value'. This method always results in a lower value than the liquidation value due to the low returns of the business. For the average dairy farm, the continuation value is about half the market value (LEI, Farm Accountancy Data Network, www.belastingdienst.nl).

2. Allowances and tax reliefs

Very large exemptions are given for inheritances to married partners. A surviving spouse may deduct €496,324. Exemptions for children are fairly small (at most €8,483 for children over the age of 23). There are special facilities for the inheritance of business properties. Of the 'continuation value', 30% is placed under a provisional taxation. This will be annulled on condition that the successor/heir continues the farm for at least five years. If not, the 30% will be taxed under inheritance tax. If the successor pays at least the going concern or the continuation value of the farm, no gift tax is due. The amount below the mentioned values is considered as a gift and will be subject to gift tax. The deduction rate will be increased in the coming years to 60% in 2005-2006 and to 75% from 2007 (Ministry of Finance, 2004).

3. Tax rate

Inheritance and gift tax are levied at the same progressive rates. This progressive rate depends on two factors: the proximity of the relationship between the deceased/donor and the value of the property received. The lowest rate is 5% and the highest 68% (table A1.2).

Table A1.2 Tax rates inheritance and gift tax

Taxable Amount	Rate (%)		
	I	II	III
Up to 21,212	5	26	41
21,212 - 42,419	8	30	45
42,419 - 84,429	12	35	50
84,429 - 169,650	15	39	54
169,650 - 339,293	19	44	59
339,293 - 848,219	23	48	63
Over 848,219	27	53	68

Source: IBFD (2004).

Beneficiaries/donors are categorised as follows:

Category I: a spouse, child or person with whom the deceased/donor lived together for at least 5 years after reaching the age of 22; (for partners this period is 6 months in the case of an inheritance and 2 years in the case of a gift). For others in direct line of descendance, the tax payable is increased by 60%;

Category II: a brother, sister, parent or others in direct line of ascendance;

Category III: others.

D. Other

1. Transfer tax

Real property transfer tax is levied on persons who acquire immovable properties in the Netherlands. The value of the immovable property is taxable at a rate of 6%. There are several exemptions for the acquirement of farmland as well as for the acquirement of business real estate by children from parents[1]. The first transfer of new buildings is exempt.

2. Value Added Tax (VAT)

VAT is levied on all entrepreneurs, liberal professionals and importers. The deliveries of goods and rendered services are taxable at two rates 6 and 19%. Basic goods of livings are taxed at 6%. Farmers are automatically subject to the Agricultural Arrangement (*landbouwregeling)*. In that case no VAT registration is necessary and no VAT is transferred to the Treasury. Entrepreneurs buying agricultural products from these farmers receive a fixed-rate deduction of 5.1%. Farmers may opt for full taxation.

[1] From the 1 January 2007, property transfer tax on agricultural land is not due if the land is used for agricultural production for the next 10 years.

3. *Excise duty*

There is a tariff differentiation in the excise duty on mineral oils depending on the use of oil as fuel for vehicles on public roads (white diesel: €154.04 per 1000 litres) or other uses such as heating and agricultural tractors (red diesel: €46.56 per 1000 litres). An energy tax applies to red diesel.

4. *Environmental taxes*

Environmental taxes are levied on ground water, energy, waste and fuel. There are special facilities for glasshouse horticulture. A low tariff has been agreed for heating used to assist the growth of horticultural products. The total amount of environmental tax on electricity is reduced by €181.

Table A1.3 Environmental taxes in the Netherlands

	Amount (exclusive VAT)	Unit	Comment
Groundwater	17.85 eurocent	m^3	
Tap water	14.40 eurocent	m^3	At most 300 m^3
Waste	83.61 euro	1000 kg	
Coal	12.28 euro	1000 kg	
Gas (all/glasshouse)	14.29/1.295 eurocent	m^3	0 - 5,000
	7.27/1.207 eurocent	m^3	5,000 - 170,000
	2.27/1.144 eurocent	m^3	170,000 - 1 mln
	1.13/1.13 eurocent	m^3	1 mln - 10 mln
	0.75/0.75 eurocent	m^3	> 10 mln.
Electricity	6.54 eurocent	kWh	0 - 10,000
	2.12 eurocent	kWh	10,000 - 50,000
	0.65 eurocent	kWh	50,000 - 10 mln
	0.05 eurocent	kWh	> 10 mln.
Oil	153 euro	1000 litre	
LPG	182.38 euro	1000 kg	

Source: Ministry of Finance (2003).

5. *Other*

Polder tax (*waterschapsheffing*) is levied on persons who possess real estate within polders. The basis for taxation is the area of the ground surface and the value of the buildings. In 2004, the average amount paid was €1,400 (LEI, Farm Accountancy Data Network).

E. *Examples*

<u>*Partnership*</u>

Assumptions:
- Income of the farm: €50,000;
- 2 entrepreneurs;
- 2 young children;
- Partnership.

Private farm:

Profit	50,000
Profit per entrepreneur	25,000
Self employed person's allowance	5,045
Taxable amount per entrepreneur	19,955

Income tax (including social security contributions):

33.4% * 16,265	5,433
40.35 * (19,955-16,265)	1,489
Total income tax	6,921
**Total income tax 2 entrepreneurs	13,843

Tax credits:

General	(1,825*2)	3,650
Children tax credit	(547 + 110)	657
Working tax credits	(2*1,213)	2,426
**Total tax credits		6,733

Other social security contributions:

Medical care insurance contribution[1]/(4.4% of 19,955*2)	2,200

Total tax and social contributions:
Total income tax (13,843) -/- tax credits (6,733) + other social security contributions (2,200) -> €9,310

<u>*One man business*</u>
Assumptions:
- Income of the farm: €50,000;
- 1 entrepreneur and cooperating spouse;
- 2 young children;
- Partnership.

Private farm:

Profit	50,000
Self employed person's allowance	4,604
Cooperation allowance (max 4%)	2,000
Taxable amount entrepreneur	43,396

Income tax (including social security contributions):

33.4% * 16,265	5,433
40.35% * (29,543-16,265)	5,358
42%*(43,396-29,543)	5,818
Total income tax	16,608

[1] 2006 situation

Tax credits:		
General	(1,825*2)	3,650
Children tax credit	(547 + 110)	657
Working tax credits	(2*1,213)	2,426
**Total tax credits		5,520

Other social security contributions:	
Medical care insurance contribution /2006 situation	
(1,320 (maximum)+ 4.4% *2,000)	1,408

Total tax and social contributions:
Total income tax (16,608) -/- tax credits (5,520) + other social security contributions (1,408) -> €12,496

Literature

EFAC, *Taxation of Agriculture in Europe*. Kluwer, Deventer, 2000.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings: The Netherlands 2003.* Eurostat, Luxembourg, 2005.

Eurostat, *Structures of the taxation systems in the European Union*. Eurostat, Luxembourg, 2004.

IBFD, *European Tax Handbook 2004*. IBFD Publications BV, Amsterdam, 2004.

Ministry of Finance, *Bedrijfsoverdracht: continuïteit door fiscaliteit.* Ministry of Finance, The Hague, 2004.

Ministry of Finance, *Milieubelastingen. Toelichting op de wijzigingen van de Wet belastingen op milieugrondslag met ingang van 1 januari 2004.* Ministry of Finance, The Hague, 2003.

Appendix 2. Belgium

In Belgium, almost 53,000 agricultural holdings had an economic size of at least one ESU in 2003, representing a 14% decline compared to 2000. These holdings employed 71,500 AWUs and used 1.4 million ha of agricultural area, which averages 26.4 hectare per holding (compared to 22.6 ha in 2000). Amongst these 53,000 agricultural holdings, 20% used less than one AWU, while 69% used 2 or more AWUs and 25% used less than 5 ha, while 3% used more than 100 ha. Of the holdings, about 20% were mixed holdings and about 1% practised organic farming. The most important sectors are cattle fattening and rearing, dairies, various grazing livestock 11% and field cropping (Eurostat 2004b).

The size of the agricultural area steadily declined until 1990, but gradually increased thereafter owing to the more stringent manure standard for animal fertilizers. Farmland, where the fertilizers may be deposited, therefore became highly attractive in financial terms (CLE, 2004).

After a rise at the beginning of the 1990s, the tax burden stabilised at 45-46% of GDP over the 1995-2002 period, setting Belgium largely above the Community average. The structure of the tax system is characterised by a relatively high weight of direct taxes, reflecting heavy reliance on corporate and personal income tax, and a relatively lower weight of indirect taxes.

Belgium imposes relatively heavy taxes on labour with an implicit tax rate of around 44%. The reform initiated in 1999 introduced a fiscal stop and paved the way for easing the tax burden on labour and more recently the implicit tax rate on labour fell again. Contrary to labour, the taxation of capital and consumption in Belgium is very close to the EU average and the developments over the period are also quite in line with EU trends. The implicit tax rate on consumption increased by around 1 percentage point between 1995 and 2000, mainly reflecting increases in excise duties on fuels and tobacco. Taxation of capital did not significantly change over the period and the increase in the implicit tax rate mainly reflects changes in the tax base (Eurostat, 2004a).

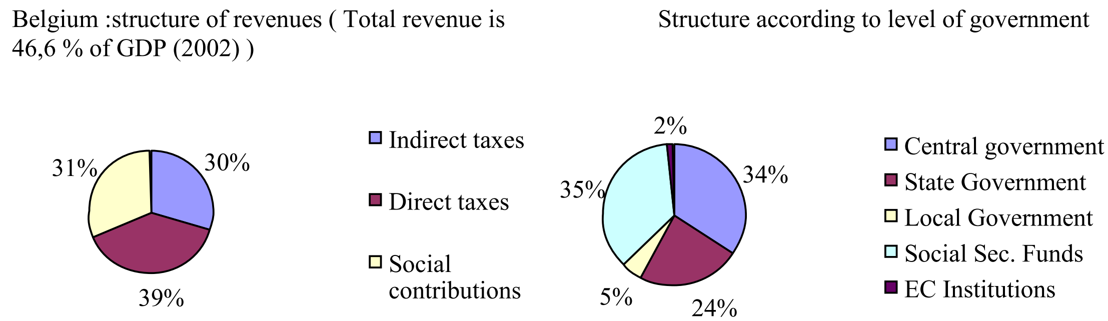


Figure A2.1 Structure of Belgian tax revenue according to total revenue and level of government
Source: Eurostat (2004a).

Figure A2.1 provides an overview of the sources of Belgian tax revenue and the distribution of revenue according to level of government.

A. Tax on income, profit and capital gains

1. Main tax system

The main business form in Belgium is the one-man business. About 6% of the holdings are a legal person (Eurostat, 2004/Lepoutre c.s., 2004). The majority of farm holdings (run by a natural person) are consequently subject to personal tax (*personenbelasting*). The farms run in the form of a corporation (for example as a bvba, nv, cvba) are subject to corporate tax (*vennootschapsbelasting*). Only the *landbouwvennootschap* (= a particular form of agricultural corporation) can choose between personal and corporation tax. Corporate tax can only be applied if the net worth is at least €30,950 and that the corporation has at least 3 partners (Federale Overheidsdienst Financiën).

2. Method of income calculation

Farms as natural persons submit their income tax to the Belgian State under personal tax law. The State does not require official bookkeeping for tax filing. Farmers can thus choose to fill in their tax form on the basis of (SBB, 2003):

- actual income; or
- per unit valuation (officially called 'forfaitaire grondslagen van aanslag', better known as 'Landbouwbarema').

The actual income method is assessed according to official bookkeeping standards. The decision to apply the valuation method is made by the tax subject. Although the option of filing tax under the valuation method is open to every business filing tax under personal income tax, the option is not an indisputable right of the taxpayer. If the administration can prove that the actual income is substantially higher than the profit estimated under the valuation method, the right to file tax under the valuation method will be waived. In that case, income is estimated by the tax authority on the basis of a comparison with three similar taxpayers.

Under the per unit valuation method, the income will be determined according to fixed standards, which will be established in conjunction with the relevant professional association. Agricultural corporations are not subject to personal income tax and are thus not allowed to opt for the valuation scheme. The valuation method is applied in the great majority of cases of personal income tax filing of farms (around 70 to 80%), although both the government and the agricultural sector are critical of the standards. The standards could be too high for one farmer, yet too low for another. Since the standards should be the average, it is inherent from a system of fixed standards (SBB, 2003).

There are different Baremas for each form of agricultural production. There is the 'milk' Barema, the 'meat' Barema, 'other agriculture' Barema and the Baremas for several 'special cultures' (for example vegetables, fruits, flours, trees, poultry). The applicable Barema is respectively multiplied by the surface area or units and, according to the situation with application of adaptations to these products, determining the semi-gross profit (so-called *'Semi Bruto Winst'*) of the farm. Furthermore additional income, for example home vending, market sales, specific premiums (CAP premiums are included in the Baremas: 60% of the premium for fallow land is liable to tax), lease and sale of quota, etcetera must be declared on top of the semi-gross profit to determine taxable revenue. The standard for milk (2004) is shown in table A2.1.

Table A2.1 Example of fixed standards for milk production 2004

Area used for fodder crops (FC) for milk production	Fixed standard
FC ≤ 20 ha	FC * 882
20 ha ≥ FC ≤ 60 ha	(882*20) +(882+5)* (FC-20) + 0.5*(FC-20)*(FC-21)*5
FC ≥ 60 ha	(60*882) + 4100 +(FC-60) * (882 + 200)

Source: www.fisconet.fgov.be.

Since the fixed standards are based on average figures, there will be both winners and losers. On average, the Barema system is more beneficial than the actual income method. Since farmers have a free choice between the Barema system and the actual method, they will normally choose the most beneficial one. However, since more and more information about prices is becoming available, the Baremas will approximate the actual average figures and the advantage of the Barema system diminishes. Furthermore, screening of the income takes place to check whether the actual income is not substantially higher than the income based on the Barema. Every year, a certain sector is checked in that way (expert information).

Net profit, which is the amount subject to income tax, is calculated by deducting limited types of expenditure from this semi gross profit. Expenses must be accounted for with receipts. The deductible expenses for the barema 'agriculture' are:

- lease of land;
- losses of livestock and crops;
- wages and contract work;

- social contributions and taxes;
- interest from loans applied to the farming practice;
- member contributions to officially recognised professional organisations;
- fee for tax consultants;
- depreciation and leasing of production quota;
- some other professional costs not included in the Barema.

The 'special cultures' Barema, such as vegetables, fruits and flowers, often have more specific deductible expenses.

The total taxable income is determined by the following types of income (IBFD, 2004):

- income from immovable property;
- income from movable property, including dividends, interests and royalties;
- earned income, including business income, professional income, employment income and pension income (including agricultural income);
- miscellaneous income.

Expenses related to the farming practice can be deducted from income if the actual income scheme is applied. Private costs are never deductible. Also some expenses are only partially deductible even though they could be fully related to the business, such as costs for the car (75% deductible), restaurant and reception costs (deduction limited to 50%), fines and *personenbelasting* (SBB, 2003).

Income from European subsidies is not included in the fixed standard income, but taxed at a special rate. If a farmer is taxed at the actual income, a choice can be made between the special rate and including the subsidies in the actual income, whichever is more advantageous.

3. Averaging of income and loss transfer allowed?

No transfer is allowed between years under the valuation method (Barema). It is only allowed to transfer the loss of one sector of the farm to another in the same tax year. Under the actual income method the carry forward of losses is unlimited in time (IBFD, 2004).

4. Depreciation and investment incentives

Depreciation is only applicable under the actual income method. Depreciation is taken starting from the financial year in which the asset was acquired. Delayed depreciation is not allowed. Depreciation is calculated on the basis of the useful life of the asset. Two methods of depreciation can be applied: the straight-line method and the declining balance method. The straight-line depreciation is the normal method. Depreciation periods and rates are normally fixed by agreement between the taxpayer and the tax authorities, although for certain assets rates are set by administrative instructions:

- industrial buildings 5%;
- machinery and equipment 10% or 33% depending on the type;
- intangible fixed assets 33.3%.

Except for the depreciation of agricultural production rights, the Barema does not allow specific depreciation for agricultural assets. Production rights can be depreciated, although with a restriction on their initial depreciable value. For milk production rights, this amount is limited to €0.50 per litre milk and €2.50 per 100 kg sugar beets.

Belgium has two fiscal investment incentives: the accelerated depreciation and the investment deduction. Qualifying assets for the accelerated depreciation are for example plant and machinery (at 33.33% per year) and costs related to the acquisition of a depreciable asset (immediate depreciation or at a rate fixed by the taxpayer). Under the investment deduction scheme, either a normal or special investment deduction may be taken at the option of the taxpayer. The normal investment deduction is equal to a percentage of the cost price of certain investments and for small and medium-sized companies may take a deduction of 3% of the investments in assets, computed on a maximum amount of €6,908,000. A deduction of 13.5% may be taken for energy-savings investments. The special investment deduction is 10.5% for companies with fewer than 20 employees computed on the depreciation on the asset in which the investment is made (IBFD, 2004).

5. Capital gains tax

For capital gains on business activities, a special rate can be applied in some cases (see A7). Capital gains realised by corporations on the disposal of business assets are regarded as business income under the actual income method and therefore normally subject to taxation at ordinary (corporate) rates. Capital gains on land are exempt for agricultural businesses for the personal income tax (fisconet, article 44 income tax). This exemption is not applicable under the corporate income tax (fisconet, article 193 income tax).

Rollover relief is granted for gains on fixed assets held for business purposes for more than five years and for gains realised in respect of damaged, expropriations and similar events. In such cases, the gains will be subject to income tax over the period of depreciation of the reinvested asset if the proceeds are reinvested adequately in depreciable non-financial fixed assets within three years (or five years for buildings). The untaxed part of the capital gain will only remain exempt if it remains recorded as a liability in a separate account and is not used as a basis for distribution of profits. If no reinvestment is made within the reinvestment period, the capital gain will be taxed during the year in which the reinvestment period ends. In addition, the taxpayer will be liable for interest on the related corporate income tax (IBFD, 2004).

Taxation on capital gains can be postponed to the successor in case of transfer to the partner or direct descendants (fisconet, article 46 income taxes).

6. Allowances and tax reliefs

All taxpayers are entitled to a basic allowance of €5,660 (€4,610 for the spouse) from their taxable income. Taxpayers are also allowed an additional allowance for children (see Table A2.2). For dependants (descendants, ascendants, foster children, relatives in the collateral line of consanguinity up to second degree) other than children, an allowance of €1,200 is available in the case they form part of the family and don't receive more than €2,490 income. The allowance for dependants is aggregated with the basic allowance of the spouse with the highest earned income. The following table shows the allowance for children.

Table A2.2. Allowance for children

Number of children	Allowance (€)
1	1,200
2	3,090
3	6,940
4	11,220
For every additional child	+ 4,280
For every child aged < 3 years if no childcare (nursing) is deducted	+ 450

Source: IBFD (2004).

If the cooperating spouse does not have a personal income of more than €10.600, part of the profit of the company can be taxed on his or her account for the assistance in the company. The transferred part of the income may not be more than the normal remuneration of the performance and not more than 30% of the profit, with a maximum of €8,160 (Fisconet).

7. Tax rates (including social security and other obligatory contributions)

Table A2.3 shows the individual income tax rates for income year 2004 (tax year 2005).

Table A2.3 Individual income tax rates (also Barema income rates)

Taxable income (€)	Rate (%)
Up to 6,950	25
6,950 - 9,890	30
9,890 - 16,480	40
16,480 - 30,210	45
Over 30,210	50

Source: IBFD (2004).

The municipalities may levy surcharges on the national personal income tax. The rates vary from 0% - 8%, according to the municipality (average rate 7% to 7.5%). For the agglomeration of Brussels, an additional income tax of 1% is levied.

Social security fees are deductible for income tax purposes to self-employed persons (fisconet, number 0111). Fees are calculated on earned income on the third year prior to the year of payment. This earned income is adjusted to inflation. Table A2.4 shows the annual contributions due in 2004. The maximum yearly contribution is €11,674. For cooperating spouses the contribution is at least €72 and at most €457.

Table A2.4 Social contributions 2004

Taxable income (€, reference year 2001)	Contribution in bracket
Up to 9,068	€1,782
9,068 - 44,289	19.65%
44,289 - 65,273	14.16%

Source: Service Public Fédéral (2004).

Some items of income are taxed separately at a separate rate, unless aggregation with other income would be more beneficial (i.e. if the tax rate for the aggregate income was lower than the separate rate). The most important separate tax rates (increased by municipal surcharges) are:

- capital gains (either 33 or 25%, depending on kind of transaction and property);
- capital gains resulting from the complete or partial cessation of a business (16.5%);
- dividends (25%);
- interest (15%);
- income from granting hunting, fishing or shooting rights (25%).

For both the Barema system and the actual income method, a specific 16.5% tax rate is applied to subsidies and benefits given by the European Commission to the agriculture sector (OECD, 2005).

Corporate income is taxed at the basic rate of 33%, increased to 33.99% by a 3% austerity surcharge. Table A2.5 shows the progressive rates than apply to business with taxable income up to €322,500.

Table A2.5 Corporate and capital gains tax rates for taxable income < €322,500

Taxable income (€)	Rate (%)
Up to 25,000	24.98
25,000 - 90,000	31.93
90,000 - 322,500	35.54

Source: IBFD (2004).

B.1 Tax on property

1. Object of taxation

Real estate is taxed through a withholding tax on immovable property, which is levied through income tax by adding the rental value of property to the taxable income (see section A2; actual income method).

2. Valuation

The levy for the withholding tax is calculated as a percentage of the rental value of the property, which is assessed every ten years and increased annually with the consumption price index. The gross value is reduced with 40% for expenses.

3. Allowances and tax reliefs

The levy on the taxpayer's own dwelling can be credited against the individual income tax up to a maximum of 12.5% of cadastral income. To this extent, it is in effect a prepayment of the income tax. For the remainder, the advance levy constitutes a separate tax on income from immovable property (IBFD, 2004).

4. Tax rate

The rate varies to the region in which the property is located. For the Flemish and Walloon regions the rate is 2.5% of cadastral income. The Brussels region is rated at 1.25%. Furthermore the provincial and municipal government can increase the effective rate to between 18% and 50% or more.

B.2 Tax on wealth

There are no taxes on capital in Belgium.

C. Inheritance and gift tax

1. Valuation

The whole estate (both movable and immovable property) left behind by the deceased is to be valuated at the net fair market value. Immovable property which is a single business or domain may be filed under one class. The agricultural holding is thus allowed to be taken up as a whole.

2. Allowances and tax reliefs

If the deceased was resident in the Brussels region, spouse and relatives in direct line of ascent or descent of the deceased are entitled to a tax-free allowance of €50,000 each. If the deceased was resident in the Walloon region, the allowance is €12,500. In the Flemish region there is maximum reduction of €500 for a taxable share that does not exceed €50,000. If certain conditions are met, an exemption of inheritance tax applies to the net value of assets invested in family-owned business and to the net value of shares in a family-owned company.

Gift tax in Belgium is only imposed on the registration in Belgium of a written document in which a gift is granted. Registration is only required if (1) a gift of movable property, wherever situated, is made by a written document or if (2) immovable property situated in Belgium is transferred by way of gift, whether or not by a written document. Therefore, movable property given from 'hand to hand' (i.e. without a written document) and gifts of immovable property located outside Belgium are not subject to gift tax. The recipient is in principle liable to paying gift tax, but the contract can transfer this liability to the donor (IBFD, 2004).

Children of a farmer can claim deferred wages if they have worked unpaid on the farm after the age of 18 and for at least five years. The deferred wages are not taxable under gift and inheritance tax and are free from personal income tax. The deferred salary is calculated as half the loan of a trained agricultural worker (Landbouwkrediet, 2004).

Family businesses are exempt from inheritance tax under certain conditions, which refer among others to the number of employees in the three years before and after death. The exemption is at most 100% in case of five employees (Fisconet, succesierecht, 60bis). For some kind of businesses (including agriculture), the gift tax rates are reduced to 3, 2 or 0% (depending on the region) (Fisconet, section XII 'registratierecht').

3. Tax rate

The inheritance tax rates are determined on the basis of the proximity of relationship between the deceased and the beneficiary and on the bases of the beneficiary's share in the estate. Different rates apply depending on whether the deceased was resident in the Brussels, Walloon or Flemish regions. The following inheritance tax rates (table A2.6, A2.7 and A2.8) apply to the closest relatives in direct ascent or descent, to husband and wife and to cohabitants.

Table A2.6 Inheritance tax rates Brussels

Taxable Amount (€)	Rate (%)
Up to 50,000	3
50,000 - 100,000	8
100,000 - 175,000	9
175,000 - 250,000	18
250,000 - 500,000	24
Over 500,000	30

Source: IBFD (2004).

Table A2.7 Inheritance tax rates Walloon region

Taxable Amount (€)	Rate (%)
Up to 12,500	3
12,500 - 25,000	4
25,000 - 50,000	5
50,000 - 100,000	7
100,000 - 150,000	10
150,000 - 200,000	14
200,000 - 250,000	18
250,000 - 500,000	24
Over 500,000	30

Source: IBFD (2004).

Table A2.8 Inheritance tax rates Flemish Region

Taxable Amount (€)	Rate (%)
Up to 50,000	3
50,000 - 250,000	9
Over 250,000	27

Source: IBFD (2004).

The value of movable and immovable property is separately taxed according to the same rates in the Flemish region (SBB, 2002). The inheritance tax rates also apply to gifts, except for gifts of immovable property in the Flemish region, which are taxed at different rates (table A2.9).

Table A2.9 Rates for immovable property gifts (Flemish region only)

Taxable Amount (€)	Rate (%)
Up to 12,500	3
12,500 - 25,000	4
25,000 - 50,000	5
50,000 - 100,000	7
100,000 - 150,000	10
150,000 - 200,000	14
200,000 - 250,000	18
250,000 - 500,000	24
Over 500,000	30

Source: fisconet (Fisconet, section XII 'registratierecht').

D. Other

1. Transfer tax

The property transfer tax is 12.5% (10% in the Flemish region). In some cases, the tax rate of the transfer of a dwelling or a rural estate is lower.

2. Value Added Tax (VAT)

The standard tax rate is 21% and the rate for agricultural products and services is 6%.
A farmer has the choice between two VAT schemes (SBB, 2003):

- The common scheme: paid VAT is deductible and received VAT transferred. VAT has to be filed four times a year;
- The special scheme for agricultural entrepreneurs: a 'forfaitaire compensatie' is charged by the farmer in order to compensate his loss of deduction of paid VAT. Consequently the farmer doesn't have to transfer this compensation to the administration. The rate is 6% above the price charged by the farmer.

3. Excise duty

The agricultural, horticultural, forestry and fresh water pisciculture sectors are exempted from excise duty and for the special excise duty of industrial fuel (OECD, 2005).

4. Environmental taxes

Environmental taxes are levied by the both the federal government and the individual regions of Belgium, i.e. the Walloon, Flemish and Brussels region (with only two farmers active in the Brussels region).

The federal levy on the use of natural gas is €1.1589 per MwH for small-scale users (< 976,944 MwH. Using the ratio 9,769 MwH per 1,000 m^3 this implies that the levy is 1.13 eurocent per m^3 for usage less than 100 million m^3. The levy for electricity is €1.9088 per MwH (Hoge Raad van Financiën, 2004).

The environmental taxes imposed by the regions are:

- water treatment levies (partly levied by the water company). The levy is calculated as follows: m^3*coefficient for farms*€27,81;[1]
- ground water extraction levies. The levy is calculated as follows: 5*consumer price index per m^3. The minimum levy is €124 (*consumper price index);
- manure legislation levy on land:
  - slurry: Gross production P2O5 and N, €0.0111/kg;
  - artificial fertilizer: Utilised P2O5 and N, €0.0223/kg;
  - other kinds of fertilizer: Utilised P2O5 and N, €0.0223/kg.

5. Other

The provinces have a general provincial tax for farms. This is a fixed amount (differing for glasshouses), which is multiplied by the farm's surface. The amount is limited to a few hundred euros.

A Flemish tax is levied on buildings that are empty or neglected. The tax is based on the rental value minus 40% (SBB, 2004).

E. Example

<u>*Partnership*</u>

Assumptions:

- income of the farm: €50,000;
- 1 entrepreneur, spouse works on the farm;
- 2 young children.

The farm is a one-man business (most prevalent form in Belgium). The spouse works part-time on the farm and they make use of possibility to transfer 30% of the profit to the spouse. The child allowance is deducted from the income of the main farmer. We make 2 tax calculations: one for the farmer and one for the spouse.

Income of the farm	50,000
Income per entrepreneur	25,000
Social Security contributions(1,782+19.65% *15,932)	4,913
Taxable income	20,087
Farmer	
Taxable income: 20,087	
6,950* 25%	1,738
(9,890-6,950)*30%	882
(16,480-9,890)* 40%	2,636
(20,087-16,480)*45%	1,623
Tax on taxable income	6,879

[1] The coefficient for farms are: 0,0005 for chicken farms; 0,00125 for hog farms; 0.0025 for dairy farms; 0.005 for other cattle farms; 0.00025 for other farms (for example arable farms, horticulture)

Personal allowance (5,660+3,090)	8,750
Discount on allowance (6,950*25% + 30% * 1,800)	2,278
Tax after discount	4,601
+ additional regional taxes (on average) 7%	322
Total income tax farmer:	4,923

Spouse

Income of spouse	20,087
Income tax	6,879
Personal allowance	5,660
Discount on allowance (5,660*25%)	1,415
Tax after discount	5,464
+ additional regional taxes (on average) 7%	382
Total income tax spouse:	5,846
Total social contributions and income tax:	20,595
(2*4,913 + 4,923 + 5.846)	

<u>*One man business*</u>

Assumptions:

- oncome of the farm: €50,000;
- 1 entrepreneur, spouse works on the farm;
- 2 young children.

The farm is a one-man business (most prevalent form in Belgium). The spouse works part-time on the farm and they make use of the option to transfer 30% of the profit to the spouse. The child allowance is deducted from the income of the main farmer. We make 2 tax calculations: one for the farmer and one for the spouse.

Income of the farm	50,000
Social Security contributions(1,782+19,65% *6,921+14,16%* 5,711)	9,512
Net Income	40,488
Transfer of income to spouse (30%, max, 8,160)	8,030
Taxable income farmer (40,488-8,160)	32,328

Farmer

Taxable income	32,328
6,950* 25%	1,738
(9,890-6,950)*30%	882
(16,480-9,890)* 40%	2,636
(30,210-16,480)*45*	6,179
(32,328-30,210)*50%	1,124
Tax on taxable income	12,493
Personal allowance (5,660+3,090)	8,750
Discount on allowance (6,950*25% + 30% * 1,800)	2,278

Tax after discount	10,216
+ additional regional taxes (on average) 7%	715
Total income tax farmer:	10,931

Spouse

Share of spouse	8,160
-/- Social security contributions (72+ 0,79%*(40,488-9,068))	320
Taxable income	7,840
Income tax	2,005
6,950*25%	1,738
(7,840-6,950)*30%	267
Personal allowance	5,660
Discount on allowance (5,660*25%)	1,415
Tax after discount	590
+ additional regional taxes (on average) 7%	41
Total income tax spouse:	631
Total social contributions and income tax: (9,512 +320 +10,931+631)	21,394

Literature

CLE, *Agriculture and horticulture in Flanders 2004.* CLE, Brussels, 2004.

Eurostat, *Structures of the taxation systems in the European Union*. Eurostat, Luxembourg, 2004a.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings: Belgium 2003*. Eurostat, Luxembourg, 2004b.

Federale Overheidsdienst Financiën; *Fisconet België*. www.fisconet.fgov.be.

Hoge Raad van Financiën, *Inventaris van de milieuheffingen*. 2004.

IBFD, *European Tax Handbook 2004*. IBFD, Amsterdam, 2004.

Landbouwkrediet, *Ondernemen in de land- en tuinbouw; praktische gids*. 2004.

Lepoutre, J., E. Mathijs, F. Nevens, S. Van Passel and G. Van Huylenbroeck, *Indelingen van vlaamse land- en tuinbouwbedrijven; Een analyse en beleidsaanbevelingen*. Steunpunt Duurzame Landbouw, 2004.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security*. Working Party on Agricultural Policies and Markets, 2004.

SBB, *Begrippen uit de agrarische fiscaliteit*. Kennisfolder, 2003.

SBB, *Bijzondere reglementeringen voor land- en tuinbouw*. Kennisfolder, 2004.

SBB, *Erfrecht en successierechten in land- en tuinbouw*. Kennisfolder, 2002.

Service Public Fédéral, *Sociale bijdragen 2004*. Brussels, 2004.

Consulted experts

- Danny Immegeers
  Federal Public Service Finance
  Internet: www.minfin.fgov.be
- Dries Nuytten
  SBB accountants and tax consultants
  Internet: www.sbb.be

Appendix 3. Czech Republic

In 2003, about 25,000 farms had a size of at least 1 ESU (Eurostat, 2005). The average holding belonging to a natural person consists of about 18 ha of cultivated farmland, 5.9 cattle and 7.2 pigs. The workforce is on average 0.5 persons with farming as their major occupation and 1.4 persons with farming as a subsidiary or seasonal occupation. The much larger holdings with a legal form cultivate on average 886 ha of farmland and keep 414 cattle and 1,017 pigs. The employment here is 42.8 persons on a permanent basis and 10.4 persons on a subsidiary or seasonal occupation basis (European Commission, 2002).

Agricultural land accounted for 4.269,000 hectare. The enterprises of legal persons accounted for 72.6% of all farmed agricultural land. Of this, corporate farms accounted for 44.0% and cooperative farms for 26.3% of the total agricultural area. At present, the organically farmed agricultural area amounts to 254,995 ha, which represents 5.97% of the total agricultural area. The structure of organically farmed land is characterized by a prevalence of permanent grasslands (Ministry of Agriculture, 2004).

The current size structure of farms is the result of the privatization program including land reform (implemented between 1992 and 1994), decollectivization of cooperatives and privatization of state farms. The privatization method very much shaped the outcome. However, there are still about 600,000 ha of agricultural land in the state ownership, which have to be privatised. Three cases have to be distinguished with regard to ownership of land and the previous (pre-reform) scheme:

- land that was expropriated and became state property;
- land that was collectivized (formal ownership had been kept);
- land that became the new property of collective farms (for example land acquired during privatization along with buildings). This is actually very rare.

From 1 May 2004, The Czech Republic is a Member State of the European Union. Important features of the Czech tax system have been harmonized with EU tax law, including direct taxes, VAT and excise duties.

With a total-tax-to-GDP ratio of about 35% in 2002 (figure A3.1), the Czech Republic has a total tax burden below the average of all new Member States and of the enlarged Union. The taxes are divided between the central and the local level of government. Personal Income Tax is applied at the central government level. The revenues account only for about 4.8% of GDP (Eurostat, 2004).

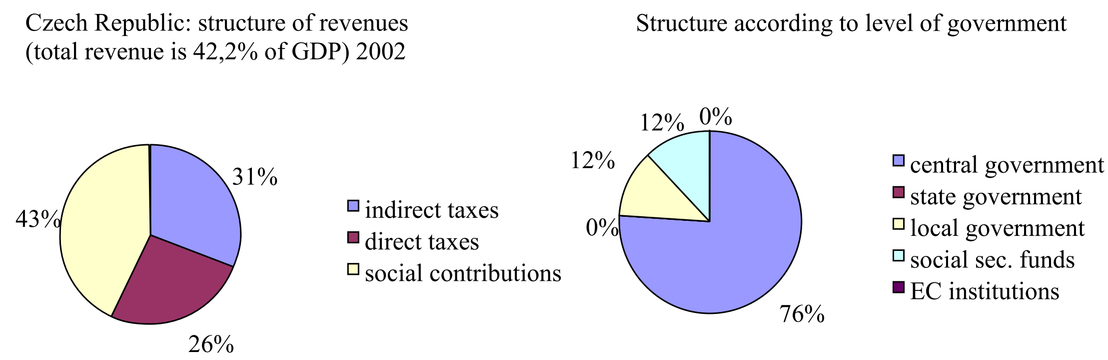


Figure A3.1 Structure of the Czech tax revenue according to total revenue and level of government.
Source: Eurostat (2004).

A. Tax on income, profit and capital gains

1. Main Tax system

Although only 11% of the farms are a legal person, they account for a large share (almost 73%) of the agricultural land. Therefore, the main tax system is the corporate income tax. The tax is paid by all entities, which are not individual persons. It concerns joint stock companies, limited liability companies, cooperatives, limited partnership and public limited company.

2. Method of income calculation

Taxable income is the difference between income and expenses incurred in obtaining that income. The taxable income is computed on the basis of the accounting profits and is adjusted for several items as described in the tax law. The law further specifies the expenses incurred.

For personal income tax, income and capital gains are divided into the following categories: employment income, business and professional income, income from capital, rental income and other income. Capital gains on the sale of non-business assets, including securities (unless exempt) belong to the categories of other income. Taxable income is the difference between income and expenses incurred in obtaining securing and maintaining that income. The income may be reduced by actual expenses or by an optional lump-sum deduction equal to 50% of the gross income from agriculture and 25% of that from another business or profession. This only applies to personal income tax. In addition, the mandatory social security contributions may be deducted.

A taxpayer deriving exclusively business income from agriculture or from a business (other than exempt income or income subject to a special tax rate) may request for an estimated assessment at the beginning of the taxable period, provided that:

- he does not engage any employees or other collaborating persons;

- his annual income in the three immediately preceding taxable periods did not exceed €31,358;
- he is not a participator in any association without legal personality; and
- he is not a taxable person for VAT purposes.

The request must include the expected income and expenses, and other facts relevant for determining the tax liability. On the basis of the request, the tax authority estimates the taxable base and the tax due according to the progressive rates. The taxable base may not be less than it would be when applying the optional lump-sum deduction (50% for agriculture), and the tax due may not be lower than €19 per taxable period. This facility is only available for personal income tax.

The received EU subsidies are taxed. Subsidies for the acquisition of material assets are not taxed.

From 1 January 2004, the taxable base of a taxpayer deriving business or professional income may not be lower than a minimum taxable base, except if the taxpayer started or terminated his business or requested an estimated assessment in the relevant tax year. The government determines the minimum taxable base as 50% of the average annual wage. The average annual wage is calculated from the general base of assess according to law about pension insurance per year that forgoes 2 years before taxable period and this general base of assess is timed by a coefficient. The general base for the year 2002 (base for taxable year 2004) is €493 per month with a coefficient of 1.0717. The tax base for the year 2004 may not be less than the minimum base established by government regulation:

- €493*1.0717*0.5*12 (months) = €3,168.

For a taxpayer, with incomes from farming, forestry and water economy, the tax base must at least amount to 50% of the above-calculated minimum. If the tax base is lower than this minimum amount, the tax is calculated on this minimum (except for the above mentioned cases). If we look at the average revenues and family farm income of farmers in the Czech Republic in the year 2004, then the lump-sum assessment does not seem to be very beneficial (table A3.1).

Table A3.1 Comparison of taxable income based on lump sum assessment and actual income.

Economic size	Total production	Subsidies	Total revenues	Lump-sum costs (50%)	Assessed income	Actual income (business economic)
4 - <8 ESU	16,800	2,800	19,600	9,800	9,800	4,700
8 - <16 ESU	27,800	6,000	33,800	16,900	16,900	8,800
16 - <40 ESU	60,000	10,100	70,200	35,100	35,100	18,000
40 - <100 ESU	166,500	31,200	197,700	98,900	98,900	41,200
>= 100 ESU	1,405,000	162,400	1,567,500	783,700	783,700	92,300

Source: EU-FADN.

3. *Averaging of income and loss transfer allowed?*

From 1 January 2004, losses may be carried forward for five tax years. The previous loss carry-forward of seven years remains applicable to losses incurred prior to the above date. No carry-back of losses is allowed. For personal income taxation, loss can be off set against positive results of other categories. However, employment income cannot be reduced by losses of any other income category. If the aggregate income (excluding employment income) is negative, the loss may be carried forward for seven taxable periods.

4. *Depreciation and investment incentives*

Tangible assets are, with some exceptions, depreciable. For tax purposes, depreciable tangible assets are immovable property other than land, and also movable property whose acquisition cost exceeds €1,254 and whose expected useful life is more than one year. In general, the owner depreciates tangible assets. The taxpayer can either choose the straight-line or accelerated depreciation method. For both methods, assets are divided into six categories according to their expected useful life (table A3.2). Land, inventories and natural resources may not be depreciated.

Table A3.2 Depreciation categories and rates

Depreciation Group	Description	Length of depreciation (years)	Linear depreciation rates	
			First year depreciation (%)	Following years
1	cars, computers, office equipment, machines for growing plants.	4	14.2	28.6
2	trucks, aircraft, optical and electrical equipment	6	8.5	18.3
3	patents, machinery and equipment used in specified industrial processes	12	4.3	8.7
4	pipelines, machinery and equipment providing energy, buildings made of wood	20	2.15	5.15
5	buildings and constructions other than in 4, bridges, tunnels, roads	30	1.4	3.4
6	office buildings, hotel buildings, shopping malls	50	1.02	2.02

Source: IBFD (2004).

Where the accelerated method is used, the first-year depreciation is established as a quotient of the acquisition cost and the appropriate coefficient stated in the law. The appropriate coefficient in the first year of depreciation is the length of depreciation. To determine the amount of depreciation in subsequent years, the residual fiscal book value must be doubled and divided by the appropriate coefficient minus the number of years already depreciated. In these years the coefficient is the depreciation period plus one. The accelerated depreciation is, in effect, a declining-balance method as it uses the same periods as the linear methods. Table A3.3 shows an example of the accelerated depreciation of an asset, whose depreciable period is 12 years and its original value is €1,000. In the first year, the depreciation rate is 1/12 (depreciation period): 8.33%. The remaining value at the end of the fiscal period is €917. The depreciation in the second year is: €917 * 2 / (12 +1 –1) = €153, etcetera.

The depreciation method chosen must be used consistently over the entire period of depreciation. The assets are assigned to one of the six depreciation categories at the beginning of the depreciation period.

Intangible assets whose acquisition costs exceeds €1,881 and whose expected useful life is more than 1 year are depreciable unless they were self-manufactured for own purposes. If the acquisition cost of tangible and intangible assets is excluded from depreciation, the costs can be deducted in the year of acquisition. Production rights are not activated and are consequently not depreciated (expert information).

Table A3.3 Example of accelerated depreciation

Year	Percentage depreciation	Amount depreciation	Remaining value
1	8.33%	83	917
2		153	764
3		139	625
4		125	500
5		111	389
6		97	292
7		83	208
8		69	139
9		56	83
10		42	42
11		28	14
12		14	0

In addition to the depreciation, the taxable base may be reduced by the following allowances:

- 10% of the acquisition cost of tangible fixed assets listed in the depreciation categories 1 to 3 (these categories include cars, machines, computers, trucks, etcetera);
- 20% of the acquisition cost of certain machinery used in agriculture and forestry.

To be eligible for the allowance, the taxpayer must be the first owner of the asset. If the allowance cannot be taken in the year of acquisition due to losses, it may be taken in the first subsequent period showing a taxable profit.

The Investment Incentive Law is effective from 1 May 2000. Since the amount of the investment has to be at least 11 million Euros, this facility will nearly never be applicable to agriculture.

5. *Capital gains tax*

Capital gains are included in the company's taxable ordinary income. Capital losses are generally not deductible. There is no indexation. Inflationary gains are fully taxed. No roll-over relief exists. Capital gains on the sale of non-business property are exempt if the taxpayer has held the property for at least five years prior to the sale. Gains on the sale of a dwelling are generally exempt if the taxpayer used the dwelling as his main residence for at least two years prior to the sale.

6. *Allowances and tax reliefs*

Table A3.4 shows the non-taxable amounts per person. The value of gifts may be deducted from the taxable income provided they exceed a given level (minimum €31 and maximum 2% of taxable base). Interest paid on mortgage loans or voluntary pension contributions are deductible as well.

Table A3.4 Non-taxable amounts

Euro	Non-taxable amount deductible:
1,193	a) by each tax payer
802	b) by each child of tax payer
681	c) if the spouse does not have income higher than €1,193
224	d) if a payer is receiving partial disability pension
448	e) if a payer is receiving full disability pension
1,569	f) if a payer is holder of special disability certificate
357	g) by students

Source: IBFD (2004).

7. *Tax rates (including social security and other obligatory contributions)*

The general rate of corporate income tax is 28%. The rate will be reduced to 24% in 2006. A final withholding tax of 15% is levied on dividends and other distributions. The aggregate personal income is subject to progressive tax rates (table A3.5).

Table A3.5 Tax rate for single persons

Annual taxable income (Euro)	Marginal rate (%)
Up to 3,424	15
3,424-6,849	20
6,849-10,386	25
Over 10,386	32

Source: IBFD (2004).

Employees and self-employed persons (persons engaged in a business or independent profession) must make social security contributions. The mandatory social security contributions cover health, occupational disability, old-age pension and unemployment insurances. In case of employees, a part of the social security contributions is paid by the employee (12.5%) from the wage while the employer pays the rest. Table A3.6 shows the rates.

Table A3.6 Social security contributions

Contribution for	Rate (%) self-employed	Employed
Health	13.5	4.5
Disability	4.4	1.1
Pension	26.0	6.5
Unemployment	3.6	0.4

Source: IBFD (2004).

The maximum base is €15,240 per year and the contribution for disability is not compulsory for the self-employed. The contribution base for the self-employed persons is determined at 35% of net income. The minimum payment on health contributions is €34 per month. Mandatory social security contributions may be deducted from the aggregate income. No special social security arrangements exist for agriculture. Contributions made by the taxpayer to a state-contributory supplementary pension fund are deductible from the aggregate income to the extent they exceed €188, up to a maximum of €376 per year.

B.1 Tax on property

1. Object of taxation

The Czech Republic has two types of taxation of property:

- tax on land: Subject to tax on land are all plots in the Czech Republic listed in Real Estate Cadastre aside from built-up areas, areas of protecting forests and water areas and plots for state defence. The tax on land is payable by the owner of the land. In the case of land owned by the state, the user must pay the tax. In the case of rented land, the tax has to be paid by the renter (this was changed on 1 January 2005). If the owner of the land is not known, the land user is subject to land tax. The owner is not known if the owner died or moved and this is not registered in the Real Estate Cadastre. This applies to about 5 to 10% of the agricultural land;
- tax on buildings: Buildings listed in the Real Estate Cadastre (except for the buildings for irrigation and drainage, etcetera), flats and separate business premises are subject to taxation on buildings. The tax on buildings is payable by the owner of the flat or building. However, under certain conditions, the user may be subject to tax.

For farmers, the tax on land is the most important one. Tax on buildings is not so high and amounts on average about ¼ of the total amount of tax paid on property.

2. Valuation

- The taxable base for the agricultural land tax is the official price of land. The tax base for the area of production forests and ponds for fish husbandry is the price of land or real area of plot in m^2 multiplied by the rate of €0.1192. It depends on the decision of the taxpayer;
- For the taxation of buildings, the ground floor area is the taxable base. For flats and separate business premises, the floor area is multiplied by coefficient 1.2 (adjusted floor area).

3. Allowances and tax reliefs

- Agricultural land is exempt from land tax for five years and forests for 25 years from the year following the one in which they were returned to agricultural or forestry use after recultivation. Agricultural land in state ownership (if this land is rented, tax has to be paid by the user of this state agricultural land), land of churches, museums, schools, etcetera are also excluded. A last category that is exempt included plots of topes[1], windbreaks, hedges on arable land and grassland, etcetera;
- Certain types of dwellings and buildings are exempt. These include buildings belonging to associations, Public Benefit Corporations and foundations, if the buildings house schools, libraries, museums, galleries, archives, health or social services, or associations of handicapped people. Newly built dwellings are exempt from taxation for 15 years.

4. Tax rate

- The tax rates of land tax vary between 0.75% (for arable land) and 0.25% (for grass and forestry). For other types of land, the tax is based on the area: it is €0.031 (1 CZK) per m^2 for building plots and €0.0031 (0.1 CZK) per m^2 in other cases. These rates are multiplied by coefficients ranging from 0.3 to 4.5, depending on the size of the municipality, which has the right to reduce or increase the coefficient within certain limits;
- The basic tax rate for the tax on buildings varies from €0.031 (1 CZK) per m^2 for residential houses and flats to €0.31 (10 CZK) per m^2, for business premises. In the case of business buildings and business premises rates are:
  - for agricultural production, forestry and water services €0.031 (1 CZK) per m^2 floor area or adjusted floor area;
  - for industry, building industries transportation, power engineering and other agricultural production €0.16 (5 CZK) per m^2 ground floor area or adjusted floor area;
  - for other business activities €0.31 (10 CZK) per m^2 ground floor area or adjusted floor area.

The basic rate per m^2 is increased by €0.0235 (0.75 CZK) per m^2 for each other overhead stage. In addition, the rates are multiplied by coefficients ranging from 0.3 to 4.5, depending on the size of the municipality.

B.2 Tax on wealth

1. Object of taxation

The Czech Republic has no wealth tax.

[1] Small forest in the middle of a field.

C. Inheritance and gift tax

1. Valuation

Value of the property of the deceased (inheritance) is stated by the court in the inheritance process. It is according to the fair market value. The taxable base is reduced by the value of inherited liabilities. An authorized expert estimates the taxable base for the gift tax according to the Property Valuation Law.

2. Allowances and tax reliefs

The beneficiaries are classified according to three categories, depending on their relationship to the deceased (inheritance) or the donator (gift). The first category is the closest relatives (spouses, children, grandchildren, parents and grandparents). The second category contains people who are also relatively closely related to the deceased and the third category includes other people and organizations.

The acquisition of property by beneficiaries in category 1 is exempt for inheritance tax since 1998. Movable personal belongings and financial means are in case of inheritance exempt up to €1,881 for beneficiaries in category 2 and up to €627 for beneficiaries in category 3.

For the gift tax, the gift of movable personal belongings and financial means are exempt up to €31,358 for beneficiaries in category 1, up to €1,881 for beneficiaries in category 2 an up to €627 for beneficiaries in category 3.

3. Tax rate

Gift tax rates range in category 1 from 1 to 5%, in category 2 from 3 to 12% and in category 3 from 7 to 40% (table A3.7). Inheritance tax rates are the same as for gift tax, multiplied by a coefficient of 0.5.

Table A3.7 Tax rates for gift tax

Euro		Category 1	Category 2	Category 3
0	31,358	1.0%	3.0%	7.0%
31,358	62,716	1.3%	3.5%	9.0%
62,716	156,789	1.5%	4.0%	12.0%
156,789	219,505	1.7%	5.0%	15.0%
219,505	313,578	2.0%	6.0%	18.0%
313,578	627,156	2.5%	7.0%	21.0%
627,156	940,734	3.0%	8.0%	25.0%
940,734	1,254,312	3.5%	9.0%	30.0%
1,254,312	1,567,890	4.0%	10.5%	35.0%
1,567,890	and more	5.0%	12.0%	40.0%

Source: IBFD (2004).

D. Other

1. Transfer tax

Real estate transfer tax is levied on the sale or transfer of real estate. The tax rate is 3% and is levied on either the transfer price or the officially assessed value, whichever is higher. The tax is normally payable by the seller, with the purchaser acting as guarantor. There are certain exemptions from real estate transfer tax, one of them being the first paid transfer of 'new' buildings, provided certain criteria are met. No special facilities for farmers exist.

2. Value Added Tax (VAT)

A VAT system came into force on 1 January 1993. The VAT applies at all levels of the supply of goods and services. The standard VAT rate is 19%. Some goods, most notably foodstuffs, pharmaceutical products and most services, are subject to a reduced rate of 5%. Transfer and lease of land and buildings or structures and the sale of enterprises are exempt.

Subject of VAT are all individuals and corporations that separately realize economic activities. They could have immunity (relief) to VAT if their turnover is less than €31,358. Then they do not have to administrate for VAT. For farmers there are no special facilities related to VAT.

3. Excise duty

Excise tax is imposed on the following goods produced in the Czech Republic, acquired from EU member states, or imported into the Czech Republic from outside the EU: hydrocarbon fuels and lubricants, spirits, beer, wine and tobacco products (Price Waterhouse Coopers, 2004). The tax rate depends on the exact nature and quantity of the good. The rates on energy products and electricity are (European Commission, 2004):

- leaded petrol: €430 per 1000 litre;
- unleaded petrol: €340 per 1000 litre;
- propellant and diesel: €312 per 1000 litre.

For farmers in the Czech Republic there exists some special relief in the excise duty. It is called 'green diesel' and it means that 60% of excise duty from mineral oils, that was included in the price of purchased oil, is given back to the limit of normative consumption. Total estimated relief in 'green diesel' was about 41 million Euros in 2004 (expert information).

4. Environmental taxes

Legislation on a new system of environmental taxes is anticipated in the next two or three years. Taxes are expected to be levied on environmentally damaging products and on the consumption of certain scarce resources. Currently, the Environmental Authorities impose fees in respect of air and water pollution, municipalities impose waste deposit fees calculated based on the quantity and quality of released pollution, and the financial authorities impose water drawing fees.

5. Other

Road tax is generally payable on vehicles used for commercial purposes in the Czech Republic. For farmers in the Czech Republic there exists some special relief for special agricultural vehicles. Tax rate is about 25% lower for vehicles for crop production. Total estimated relief in reduced rate of road tax is about 2.4 million Euros.

E. Examples

Assumptions:

- income of the farm: €50,000;
- 2 entrepreneurs;
- 2 young children.

We make 2 calculations. In one case the farm is a holding, in the other case it is a private one. In the first case, the two entrepreneurs both receive an income of €10,000. The income of €50,000 is before the payment of the salary to the entrepreneurs and the social contributions. We assume that the rest of the profit is paid to the entrepreneurs.

<u>Holding</u>

Profit before paid salaries		50,000
Paid salaries		20,000
Social contributions	Health (9% * 20,000[1])	1,800
	Disability (3.3% * 20,000)	660
	Pension (19.5% * 20,000)	3,900
	Unemployment (3.2% * 20,000)	640
Taxable corporate income		23,000
Corporate tax (28%)		6,440
Net profit		16,560
Dividend tax (15%)		2,484

Income tax and social contributions on the salary of €20,000:

Income		20,000
Personal allowance	(2 * 1193)	2,386
Child allowance	(2 children * 802)	1,604
Social security	Health (4.5% * 20,000)	816
	Disability (1.1% * 20,000)	220
	Pension (6.5% * 20,000)	1300
	Unemployment (0.4% * 20,000)	80
Taxable income		13,594
Taxable income per entrepreneur		6,797
Tax per entrepreneur(15% * 3424 + 20% * 3373)		1,188
Total tax		2,376

[1] The maximum base is €15,240 per person, in this case €30,480.

Total Social contributions		9,416
Total Tax	(corporate + income + dividend)	11,300
Total		20,716

Private farm

Income tax and social contributions on the profit of €50,000:

Profit		50,000
Personal allowance	(1,193+681)	1,874
Child allowance	(2 children * 802)	1,604
Social security	Health (13.5% * 17,500[1])	816
	Disability (4.5% * 17,500)	770
	Pension (26% * 17,500)	4,550
	Unemployment (3.6% * 17,500)	630
Taxable income		39,756
Tax	(15% * 3424 + 20% * 3425 + 25% * 3567 + 32% * 29,370)	11,489

Total Social contributions	6,766
Total Tax (income)	11,489
Total	18,255

Literature

European Commission (Directorate-General for Agriculture), *Agricultural Situation in the Candidate Countries; Country Report on the Czech Republic.* 2002.

European Commission, *Excise duty tables, part II Energy products and electricity*. 2004.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings: Czech Republic 2003*. Luxembourg, 2005.

Eurostat, *Structures of the taxation systems in the European Union*.Luxembourg, 2004.

IBFD, *European Tax Handbook 2004.* Amsterdam, 2004.

Ministry of Agriculture, *Summary Report of the Ministry of Agriculture 2003*. 2004.

Price Waterhouse Coopers, *Business Guide to the Czech Republic 2004*. 2004.

[1] Base is 35% * €50,000

Consulted experts

- Ladislav Jelinek and Tomas Medonos
  Vuze: Research Institute of Agricultural Economics
  Internet: www.vuze.cz
- Tomas Doucha
  Vuze: Research Institute of Agricultural Economics
  Internet: www.vuze.cz

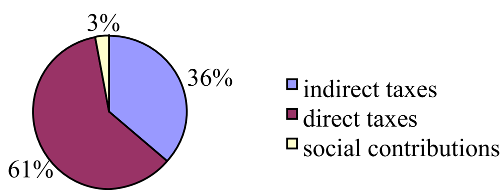
Appendix 4. Denmark

In 2003, about 48,600 agricultural holdings had an economic size of at least one ESU (European size unit), reflecting a 16% decline compared to 2000. These holdings employed 60,700 AWUs and used 2.7 million ha of agricultural area, averaging 54.7 hectare per holding (compared to 45.8 ha in 2000). About 40% of the farms are quite small and used less than one AWU, while 47% of the farms use 2 or more AWUs. If we look at the size of the farms, then 4% is smaller than 5 ha, while 16% use more than 100 ha of land. About 80% of the farms are specialized. The main products are cereals, oil seed and protein crops, followed by field cropping and dairies. About 5% of the farms are organic (Eurostat, 2004b).

For centuries, agriculture has been the main industry in Denmark, and even though the number of people employed in the agricultural sector has steadily declined, farming still plays a vital role in Danish society. Danish Agriculture has always been at the forefront of the development and farmers as well as the food industry have been quick to apply the newest and best technology and the latest research results. The products are characterized by their high quality, which is only achieved by means of good workmanship and great professionalism, both at the farms and at the food companies. Danish farmers have on average a high debt ratio (www.landbrugsraadet.dk).

Denmark has a relatively high tax-to-GDP ratio, the second highest in the Union after Sweden. The Danish tax structure stands out in a number of respects. Social contributions are lowest in Europe as most welfare is financed out of general taxation, notably personal income taxation. But also indirect taxes in relation to GDP are the highest in the European Union. At about 4%-5% of GDP, Denmark has the highest level of environmental taxes in the European Union, the majority being raised through energy and transport taxes (Eurostat, 2004a).

Taxes on consumption as a percentage of GDP are highest in the Union, because of the single high VAT rate of 25% and because of high environmental taxes mainly paid by households. Taxes on labour in relation to GDP are also amongst the highest in the EU. The implicit tax on labour contains most notably of personal income tax. The overall implicit tax rate on capital is in line with the European average. Figure A4.1 depicts an overview of the structure of taxation in Denmark.



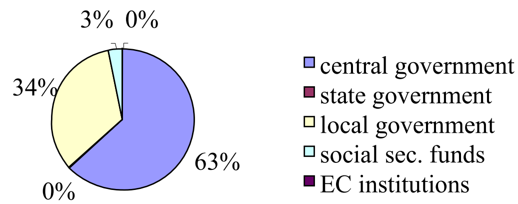


Figure A4.1. Structure of Danish taxation according to total tax revenue and to level of government
Source: Eurostat (2004a)

A. Tax on income, profit and capital gains

1. Main Tax system

The main business form for farming in Denmark is the (owner-occupied) private enterprise, with a very small portion of the farms being tenant run (Landbrugsraadet, 2003). Only a small share of the farms is run by a partnership (EFAC, 2000). Only about 1% of the agricultural holdings of Denmark were legal entities in 2003 (Eurostat, 2004). Income tax is therefore the main tax system. A farmer is taxed as any other self-employed person. Individuals are subject to a national income tax and to two local income taxes (EFAC, 2000):

- bottom tax to the state and the local authority;
- intermediate tax to the state;
- top tax to the state.

A special scheme exists for the taxation of business and professional income (company scheme, see A.2*)*.

2. Method of income calculation

According to Danish legislation, taxable income includes 'the annual income of the person liable to pay tax'. Income is compounded by three elements:

- personal income: wage and part of the income from business, pension income and gifts minus the labour market contribution (see A.6*)*;
- capital income: net interest, gains and losses on bonds and gains on the disposal of immovable property;
- general deductions.

In principle, the demands on accounting and other registrations within agriculture do not differ from the demands made on other trades. Basically, all farmers are subject to statutory requirements relating to accounting. Farms established before 1 July 1999 with acreage below 15 ha or a rateable value of €23,522 are exempt from accountability (EFAC, 2000).

Income includes all types of income, i.e. salary, staff benefits, profit from business and interests. Expenses connected with acquiring, safeguarding and maintaining income are deductible in the taxable income. Profit and loss must also be included in the income calculation when a trade is carried out. EU subsidies are included in the farm income. The Land Tax and social security contributions are income deductible.

In the Danish tax system, all types of interest are deductible from income. This also applies to interest relating to the private residence (mortgage). In turn, income is increased by an imputed rent (2%) on the value of houses (average between €50,000-80,000[1]) that are owned and used. The costs of maintenance etcetera of the house are deductible at a standard amount of 1% of the value of the house (EFAC, 2000).

If spouses run a joint business, the entire income is generally taxable on the spouse performing most of the work. This applies irrespective of who owns the business. If the other spouse performs some of the work in the business, part of the income can be transferred to this spouse. According to the rules of Assisting Spouses, up to 50% of the profits of the business before deducting interest payments can be transferred (maximum €25,258). This rule is frequently used. Instead of applying the rules for Assisting Spouses, the spouse can be paid a wage in the same way as other wage earners. This rule can be used with advantage when you want to distribute more of the profit than €25.258 (1999), but is not widely applied. The income transferred to the spouse working least in the business is taxable as personal income with this spouse. Labour market contribution is paid as well (EFAC, 2000).

Expenses connected with purchasing buildings, machinery, etcetera (investments) are written off according to special rules (seeA.4). Expenses connected with the purchasing of livestock, inventories etcetera, are deductible. However their value stated in the year-end balance sheet is included in the income. It should be noted that farm stock is divided into four categories: purchased (1) and sales (2) stock follow the general rule concerning stock. Sales stock can be valued optionally at either market price or at production costs. The farmer is not obliged to choose the lowest. Planning whether stocks should be sold before or after the balance sheet date can also be used to spread income. Feed stocks (3) and growing stocks (i.e. growing plants) (4) are optionally (but normally not) included in the income statement (EFAC, 2000).

Goods produced on the farm and which are put to personal use are subject to tax. Withdrawals are also taxed when resources/assets are used both in the farm business and by the private household, for example electricity, heating, car and telephone. Their total expenditure is basically deductible from the farm business. An assessment is needed for private consumption when this is not directly measurable. Private withdrawals are regulated in such a way that the deductible expenditure of the farm business is reduced by the value of own consumption. There is a certain allowable deduction of housing and board for farm employees from the farm income (EFAC, 2000).

Pension-scheme savings, qualifying under the Pension Taxation Law, are deductible from income (not reducing the gross income used for calculating the social security fee (see A.6). Pension payments received are fully subject to income tax, through inclusion in the personal income. Deductible premiums to capital pension schemes qualifying under the

[1] 1 Euro = 7.455 DKK

law are restricted to the amount of €5,379 per year. Lump-sum payments received under such schemes are subject to a final tax of 40% (IBFD, 2004).

Young wage earners who want to establish an independent business in the future can save part of their wage in special bank accounts (establishment accounts). The wage earners can deduct these savings from their income. The scheme only applies to the bottom tax and can only be to a maximum of 40% of the wage with a minimum of €6,730 and a maximum of €23,500. As soon as the wage earners set up a business, the savings can be cashed. The amount is depreciable as advance depreciation of machinery and building costs. Further depreciation is only applicable to the remaining part of the purchase price. Special provisions allow the depreciation over five years of expenses for establishing or expanding a business, including market research expenses and R&D expenses (Van der Veen et al., 2002; European Union, 2003).

Aside from the income taxation explained above, a self-employed individual may opt for a fiscal scheme that includes the same fiscal advantages that exist for legal companies (company scheme). One of the most important advantages is the full effect of the deduction for interest on business loans[1], which can only be obtained by using the company scheme. The scheme also allows profits to be retained in the business. Use of the company scheme requires a separate business account, which in principle is separate from private finances. On sale or cessation of the farm, savings in the company scheme are considered as ordinary income (EFAC, 2000). Almost all farmers (more than 90%) use the company scheme (expert information).

The purpose of the company scheme is to give self-employed individuals the opportunity to choose a fiscal scheme that includes the same fiscal advantages that exist for legal companies. When taxed in the company scheme, the income is in principle determined according to the normal tax rules. All income and all costs, including all interest on business loans, are included in this calculation. The income is divided between calculated capital income and business income. The capital income can be paid out to the businessman and is taxed as a capital income. However it is possible to save (carry forward) the capital income, or part of it, in order to activate it in later years. The capital income is determined by multiplying a short-term interest rate with the net capital in the business. The rest of the income can be taxed in the normal way or retained in the company scheme. Only 30% (2004) tax is then paid on account of the savings. When cashing former years' savings a final tax payment is made according to the rules applying in the year in which the savings are cashed. The tax already paid (corporate tax) is set off in the year in which the savings are cashed. If the corporate tax already paid exceeds the final amount in the year where the savings are cashed, the excess amount is paid back. As mentioned before, the business income can be divided into:

- capital yield, taxable as capital income;
- personal income, taxable as personal income;
- retained income, taxed as corporate income and finally taxable as personal income when cashed.

The capital yield is a percentage of the net assets in the company scheme. If the spouse is an assisting spouse, the amount transferred to the spouse is deducted when mak-

[1] Without using the company scheme, the interest is only deducted for the calculation of the bottom tax.

ing up the income of the business. In principle, the farmer can determine how to distribute his income between personal income and retained income (EFAC, 2000).

3. Averaging of income and loss transfer allowed?

The company scheme is extensively used to level off incomes so that they are not affected by the progression of the taxation system.

Because of the categorization of income, complicated rules regulate situations where either taxable income, personal income, capital income or income from shares is negative. Losses within the three categories can be offset against each other. No carry-back is permitted. Subsequent remaining losses can, under certain conditions, be transferred to the taxpayer's spouse or be carried forward indefinitely. A loss that one business suffers may be offset against the profits of another business or against private income (IBFD, 2004). In case of hobby farming, losses cannot be deducted.

A farmer also has the opportunity to regulate the income statement through depreciation (see A.4) and valuation of stock (see A.2).

4. Depreciation and investment incentives (EFAC, 2000)

There are no special rules concerning depreciation for farm production compared to other businesses. Buildings used in farming are written off, using the straight-line method, by up to 6% annually. This depreciation is calculated on the basis of the purchasing price. When a total of 60% has been written off, the maximum annual depreciation reduces to 2%. To some extent it is possible to deduct expenses in connection with renovation of existing buildings directly from income (immediate deduction to a maximum of 5% of the depreciable basis).

Depreciation of machinery and equipment is not applied item by item, but are written off on a pool basis. Depreciation may vary from one year to another from 0-25%. It is the entrepreneur's own decision which rate he applies each year. When purchasing machinery etcetera, up to max. €1,198, all costs are deductible in the year of purchasing. This also applies to equipment with a life of up to three years.

Permanent land improvement is not depreciable, whereas temporary improvements to field drainage etcetera are depreciable as any other asset used in business. Depreciation can be made at 20% a year.

The market value of livestock is included in the balance sheet and thus also in the statement of income. These balance sheet values can be written off by up to 15%. The depreciation performed by the end of year 1 is entered as income in the beginning of year 2. Price fluctuations, i.e. changes in the normal market values, of the skeleton crew (cattle > 1 year, sows, ewes) are included in the statement of income. The rate of depreciation may vary from year to year by choice and can be used to spread income. The cost of purchasing animals is deductible and the sales are taxable. This also applies to the purchase/sale of livestock in connection with buying/selling the business.

The cost of purchase of plantations (in Denmark generally Christmas trees, fruit trees and berry bushes) can be written off by up to 20% annually. If the total cost per year is lower than €3,365 the costs can be deducted immediately. The taxation of forestry is of no special importance. The costs of planting cannot be deducted immediately. The cost is capitalized and deductible from income from the forest later on. In regions where there are restrictions on the cutting down of trees, the planting of woodland can be written off at up to 20% per year. If the costs per year are lower than €3,365 the costs can be deducted immediately. The costs for replanting are also immediately deductible.

An investment incentive for research and development exists. The deduction is equal to 150% instead of 100% of the costs, which must be paid to a public R&D institution. In 2004, no special fiscal rules exist for quotas. According to the Danish authorities, the following quota systems are the most important of the existing ones: CO^2 quotas, herring quotas, mackerel quotas, scrapping certificates for wind power plants, milk quotas and delivery quotas for sugar beets. No depreciation is allowed and the quotas are valued at their initial costs (European Union, 2004).

5. *Capital gains tax*

Capital gains are taxed as normal income, but the income can be retained in the company under the company scheme. The profit from the sale of a single-family house in which the owner has lived during the whole period of ownership (for example the farm house) is tax-free (EFAC, 2000). Only 90% of recaptured depreciation on business properties is taxable as personal income (KPMG, 2005).

If real property was acquired before 1 January 1999, the taxable gain is reduced by 5% per annum for a sale from the fourth to the ninth year after purchase (at most 30%). The reduction percentage is itself gradually reduced, and consequently the reduction is totally abolished in 2008. Capital gains on land and buildings acquired on or after 1 January 1999 is taxable in full, i.e. no relief is given. Losses can be set off against gains on real property recognized in the same year. Excess losses can normally be set off against net gains in the following years. There is no limit on how many years a loss can be carried forward. In special cases losses can be set off against gains on real property recognized in previous years.

Roll-over relief is available, if a new property is acquired for the use of the business prior to the end of the year following the year of disposal.

Transfer of a farm to family members (and since 2002 also to employees under certain conditions (European Union, 2003)) involves special tax rules. The rules allow for a choice of one of two options. The buyer either takes on the seller's basis of depreciation and tax obligations linked to depreciation, in which the case the seller makes a tax gain by not paying the taxes linked to past depreciation *or* a standard sale takes place. The option can be decided for each individual type of asset. All things being equal, the buyer should be better off in succession, because the hidden tax burden is taken over from the seller. Under the standard sales price the price of the farm is at market level (higher than under the other option) but the purchaser is able to claim the full investment benefits of depreciation. If using the fiscal succession rules, the seller of a farm does not pay tax on capital gains. The buyer continues the depreciation plan of the seller (EFAC, 2000).

6. *Allowances and tax reliefs*

For the bottom tax, a personal allowance of €4,937 is available. If the personal allowance of a spouse is not exhausted, the remaining part can be transferred to the spouse.

7. Tax rates (including social security and other obligatory contributions)

As stated under *Main Tax system*, income is subject to a three tiered taxing system (IBFD, 2004):

- The bottom bracket tax is calculated on the basis of taxable income. It is composed of total personal and capital income, less special deductions (including a deduction for interest and social security contributions), and minus a personal allowance of €4,937. Furthermore, since 1 January 2004 a special employment deduction of 2.5% is applied on the same basis, limited to €805.The bottom tax is 5.5%. The regional tax rate is on average 33.3% (including church tax) and is paid on the personal income (including a deduction for social security contributions). The church tax is paid by members of the Danish National Church as an additional element to the bottom tax. This rate varies between 0.5% and 1.3%. Approximately 85% if all Danes belong to the church (Ministry of Taxation, 2005);
- The middle bracket tax is calculated on the part of personal income and capital income (including a deduction for social security contributions) that exceeds €29,083. The tax rate is 6%;
- Top bracket tax is calculated on the part of taxable income (personal income and capital income plus an add-back for certain pension contributions, including a deduction for social security contributions) that exceeds €40,888. The tax rate is 5.5%.

The social security fee (the labour market contribution) is paid on the basis of normal net business income at a rate of 8 %. A supplementary pension (Danish abbreviation ATP) is to provide wage earners and the like with a supplementary pension. Self-employed persons such as farmers do not pay ATP contributions for themselves, but only for employees. ATP is supplementary to the ordinary old-age pension (EFAC, 2000).

The tax ceiling for income tax is 59%, which implies that the tax rate in the top tax is reduced in case the tax percentage paid to the municipality and county (on average 32.6%) added to the tax percentages paid to the state (5.5% + 6% + 15%) cannot be more than 59%. If necessary, the tax rate of the top bracket tax is reduced.

Under the optional company scheme, profits retained in the business are taxed at 30%.

B.1 Tax on wealth and property

1. Object of taxation

Land and owner occupied dwellings are taxed at county and municipality levels.

2. Valuation

The taxes are calculated on the basis of the official property valuation made by the valuation authorities assisted by the tax authorities. It is assumed that this value is about 80% of the market value (Parsche et al., 2001).

3. Allowances and tax reliefs

A reduction of the rate is applied if the land is used for agricultural production. Land tax is deductible from the income (IBFD, 2004).

4. Tax rate

The county land tax is fixed in all counties at 1% of the official land value, except for land used for agricultural production where the rate is 0.57% in 2003, 0.43% in 2004, and planned to be 0.38% in 2005. The municipality land tax is, in general, minimum 0.6% and maximum 2.4%. For land used for agricultural production, the minimum rate is also 0.6% while the maximum rate is 1.2%. The tax for owner-occupied dwellings is 1% of the value of the dwelling including both building and land (OECD, 2005).

B.2 Tax on wealth

Wealth tax has been abolished.

C. Inheritance and gift tax

1. Valuation

The taxable base is the fair market value (IBFD, 2004). In transfers to family members, buyer and seller can always transfer real property at valuation price +/- 15% without paying gift tax. The rateable value of real property is fixed once a year by the public valuation authorities. The number of persons entitled to the benefit of this 15% rule is limited but not clearly defined. The rule is often used when transferring a farm to a son or daughter (EFAC, 2000).

2. Allowances and tax reliefs

For inheritance tax there is an allowance of a sum of €31,095 before the 15% levy (see C.3). This amount has to be split in case there is more than one heir. If the spouse inherits a share, that share can be deducted from the value of the estate before the €31,095 allowance. An inheritance received by one spouse from the other is not taxed. The same applies to gifts. The tax-free amount for gift tax is €5,700. If spreading the gift tax over a number of years, the tax-free amount can be utilized every year (IBFD, 2004; EFAC, 2000). There is no special legislation for farmers and farmer's families (OECD, 2005).

3. Tax rate

The rate of the inheritance and gift tax is 15% (for children, grandchildren and parents) (IBFD, 2004).

D. Other

1. Transfer tax

On conveying real property a stamp duty of 0.6% is paid on the assessed value of the real property (KPMG, 2005). No special concessions for agriculture have been reported (OECD, 2005).

2. Value Added Tax (VAT)

The VAT rate is 25% on all goods. Farmers and other self-employed people are included in the VAT system. As such, they are required to submit a VAT return and pay the amount of

VAT every third month. Farmers with a turnover below €67,200 can choose semi-annual VAT returns and VAT payment (EFAC, 2000).

3/4. Excise duty and environmental taxes

A somewhat complicated system exists in Denmark where there are two different kinds of excise duties levied on fuels: energy tax and carbon dioxide tax (table A4.1). For all businesses with production, the energy tax is refunded. The CO^2 tax is more complex. Farmers do not have a refund of CO^2 tax neither for production nor for heating. However, heavy energy industries like pot plants producers will have their CO^2 tax refunded (expert information).

The actual amount of taxes paid by farmers for diesel used for agricultural vehicles is €0.0327 per litre, which is only the CO^2 tax (Parsche, R. and D. Radulescu, 2004).

Table A4.1 Energy and CO^2 tax in Denmark (2005) without refund

	Energy tax	CO^2 tax	Total
Oil, for heating, euros per litre	0.249	0.032	0.282
Natural gas, euro/ m^3	0.274	0.027	0.300
Electricity, for heating, euro/kWh	0.068	0.012	0.080
Electricity, for other purposes, Euro/kWh	0.076	0.013	0.090
Water euro/ m^3	0.671	0.000	0.671

Source: Ministry of Taxation (2005).

Farmers pay tax for the use of herbicides and pesticides. This tax amounts to 27% of the sales prices for pesticides and 13% for herbicides. The tax is calculated on the sales price, excluding VAT. The tax is deductible from the income (EFAC, 2000).

5. Other

In general, tax must be paid on all vehicles that are used permanently in Denmark. All car taxes are paid by the car's owner and are linked to the specific vehicle. Car taxes fall into two groups: regular taxes and a tax on acquiring the vehicle. There are a number of allowances for registration tax in the tax basis given for security or environmental considerations (Ministry of Taxation, Denmark, 2005). No special provisions exist for farmers (expert information).

E. Examples

<u>*One-man business*</u>

Assumptions:

- income of the farm: €50,000;
- 2 entrepreneurs.

In Denmark, most farms use the company scheme, which enables farmers to benefit more from interest payments and level out the variations in income. This example is used to provide an example of how the tax is calculated in Denmark and shows how the tax rates differ in the examined countries. All income that is retained will eventually be taxed as personal income. To provide a good view on the tax rates, we will not retain any income in the example.

Profit before interest payment	60,000
Interest payment	10,000
Profit after interest payment	50,000
Transfer to assisting spouse (assumption)	20,000
Income main entrepreneur	30,000

Taxation on income main entrepreneur (30,000)		
Capital income (assumption)		10,000
Personal income		20,000
Labour market contribution	(8% * 20,000)	1,600
Employment allowance	(2.5% * 20,000)	500
Basic allowance regional and bottom tax		4,937
Regional taxation	((20,000+10,000-1,600-500-4,937)*33.30%)	7,647
Bottom tax	((20,000+10,000-1,600-4,937)*5.5%)	1,290
Total (1,600+7,647+1,290)		10,537

Taxation on income assisting spouse	(20,000)	
Labour market contribution (8%)		1,600
Employment allowance (2.5%)		460
Basic allowance regional and bottom tax		4937
Regional taxation	((20,000-1,600-460-4,937) * 33.3%)	4,330
Bottom tax	((20,000 –1,600-4,937)*5.5%)	740
Total	(1,600+4330+740)	6,670

Total labour market contributions and income tax (10,537+6,670) 17,208

Partnership

Assumptions:

- income of the farm: €50,000;
- 2 entrepreneurs.

Taxation on income per entrepreneur (25,000)		
Capital income (assumption)		5,000
Personal income		20,000
Labour market contribution	(8% * 20,000)	1,600
Employment allowance	(2.5% * 20,000, max 805)	500
Basic allowance regional and bot. Tax		4,937
Regional taxation	((20,000+5,000-1,600-500-4,937)*33.30%)	5,982
Bottom tax	((20,000+ 5,000-1,600-4,937)*5.5%)	1,015
Middle bracket tax	((40,000+10,000-3200-29,803)*6%)	1,020

Total per entrepreneur	(1,600+5,982+1,015+1,020)	8,597
Total taxation		17,194

Literature

EFAC, *Taxation of Agriculture in Europe.* Kluwer, Deventer, 2000.

European Union, *European Charter for Small Enterprises Denmark.* 2003.

European Union, *Draft letter to the Danish government (N 604a/2004 - Fiscal treatment of quotas)*. 2004.

Eurostat, *Structures of the taxation systems in the European Union*. Luxembourg, 2004a.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings: Denmark 2003*. Luxembourg, 2004b.

IBFD, *European Tax Handbook 2004*. Amsterdam, 2000.

KPMG, *Investment in Denmark*. 2005;

Landbrugsraadet, *Facts and Figures, Agriculture in Denmark 2003*.The Agricultural Council of Denmark, Copenhagen, 2003.

Ministry of Taxation (Denmark); *Tax in Denmark 2005*. 2005.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security*.Working Party on Agricultural Policies and Markets, 2005.

Parsche, R., P. Haug, A. Marcelo, C. Woon Nam and B. Reichl, *Internationaler Vergleich der Systeme zur Besteuerung der Land- und Forstwirtschaft.* IFO Institut für Wirtschaftsforschung, München, 2001.

Parsche, R. and D. Radulescu, *Taxing means of agricultural production in Germany: relatively high tax burden compared to other important EU competitors*. 2004.

Veen, H.B. van der, K.H.M. van Bommel and G.S. Venema, *Family Farm Transfer in Europe, A focus on the Financial and Fiscal Facilities in Six European Countries*. LEI, The Hague, 2002.

www.landbrugsraadet.dk

Consulted expert

- Lars Eghøj
  Danish Agriculture
  Internet: www.dansklandbrug.dk

Appendix 5. France

In 2003, about 566,000 agricultural holdings had a size of at least one ESU. That implies a 10% decline compared to 2000. These holdings employed more than 900,000 Agricultural Worker Units (AWU) and used 27.7 million ha of agricultural area, averaging 48.9 ha per holding (compared to 45.8 ha in 2000). Of these holdings, 32% used less than 1 AWU, while 29% used 2 or more AWU. A few farmers (15%) are over 100 ha, while 22% are less then 5 ha. Most of the farms (81%) are specialized farms and the most important products are protein crops, vineyards, dairies, cattle rearing and fattening and other grazing livestock. About 1.5% of the farms practised organic farming (Eurostat, 2005).

In France, the natural conditions are very favourable for agriculture. This explains the deep French rural tradition and the number of farms. Agricultural production is not uniformly distributed across the national territory. The regions of the north and west contain most of the farmland, the largest farms and the bulk of production, and are consequently now encountering the same problems of environmental management as other regions of northern Europe. Conversely, the south/south-eastern half of the country contains most of the mountain areas and less-favoured areas, and thus suffers from low agricultural incomes and population density (Vial, 2001). To encourage young farmers to set up a business, some settlement subsidies and early retirement pensions are granted to improve the pyramid of ages. These measures also aim to prevent rural desertification in some areas and to maintain or improve rural areas (EFAC, 2000).

France's tax-to-GDP ratio is largely above the Union's average, being around 44% in 2002. Social contributions contribute an important share of the total tax revenue in France. Employers pay the largest share by far. On the other hand, France has one of the lowest shares of environmental taxes in the EU.

Although consumption taxes in relation to GDP are above EU average, the effective rate of around 17%-18% is slightly below the community average, reflecting the high level of consumer demand in GDP. The social security contributions are one of the most important drivers behind the high implicit tax rate on labour.

Lastly, taxation of capital is relatively high in France. The implicit tax rate on capital is the highest in the Union, but this is not related to heavy taxation of capital and business income. The taxation of a household's capital income is even low by European standards. However the French system relies heavily on a number of other taxes on capital, such as real-estate tax, the housing tax, the wealth tax and local business tax. Most of them are classified under taxes on wealth and represent almost 4.5% of GDP against about 2,5% in the EU-15 (Eurostat, 2004).

The following figures provide an overview of the sources of French tax revenue and the distribution of revenue according to level of government.

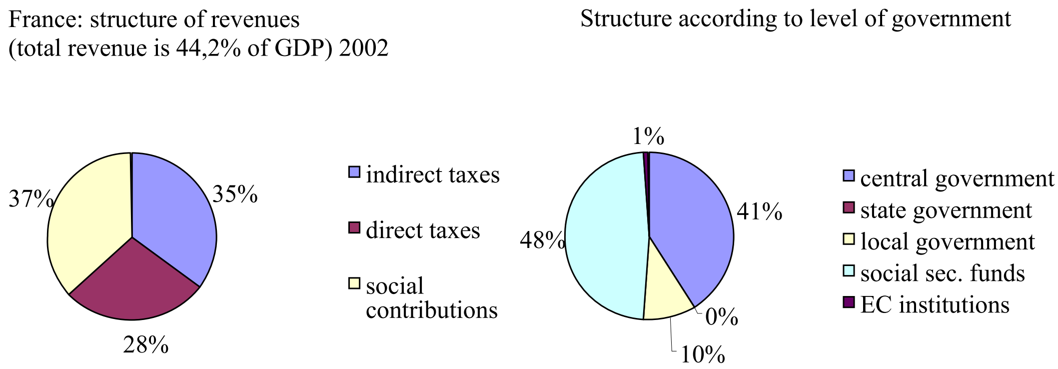


Figure A5.1 Structure of French tax revenue according to total revenue and level of government
Source: Eurostat (2004).

A. Tax on income, profit and capital gains

1. Main tax system

The most common business form is the one-man business (in fact company or Societé de Fait = SDF). Thus the main tax system is personal income tax.

Partnerships through societies like the Pool Farming Associations (French abbreviation: GAEC, EARL, SCEA) and Farming Limited Liability Enterprise are the second most common form and growing steadily in application. These societies are basically corporations, but the associates are taxed individually under the income tax scheme (EFAC, 2000). In 2003 about 14% of all agricultural holdings were legal entities (Eurostat, 2005).

2. Method of income calculation

The individual income tax is a household tax, which is a gross aggregate of seven income categories in total, in which farming income is considered as a specific category of income. The seven categories are: real estate income, industrial and business income, farming income, non-commercial job income, wages and pensions income, company manager rewards, financial shares income, capital gains. Each category has its own rules to determine the income. Together, the categories form the global raw income.

Expenses incurred to acquire the earned income from wages and pensions are normally taken into account notionally (a 10% deduction capped to €12,682). However, taxpayers may opt for the deduction of their actual professional expenses. A supplementary 20% relief limited to €23,580 is applied to all earned income from salaries, pensions and annuities declared by each member of the tax household (Ministère de l'Economie des Finances et de l'Industrie, 2005).

All income generated by agricultural activity is considered to be farming income. Up to 30% of the total turnover generated by secondary activities may be included as farm income, to a maximum of €30,000. The charges and expenses that are necessary to the practice are deductible.

In France there are three main schemes for taxation of farm income based on:

- valuation:
    - forfait collectif;
- real income:
    - réel simplifié;
    - réel normal.

In France, 60% of the farmers pay income tax under the *forfait* scheme. About 20% of farmers are assessed for income tax under *réel normal*. The *réel simplifié* system accounts for the remaining 20% of the cases (expert information).

The applicable tax scheme is determined on the basis of turnover (receipts), including subsidies and allowances. The *régime du forfait collectif* is an option for farmers with an average turnover of less than €76,300. It also applies to new entrants in their first two years. They are also free to opt for any of the two real income schemes as an alternative. Payment is a lump sum that combines two elements: a collective reference figure calculated at Department level (taking account of liabilities for different types of production and farm structures), and the individual circumstances of producers in terms of their amount of land, number of animals, etcetera The overall gain is an average net profit, which already considers all expenditure and incomes of the farmer. The profit may only be reduced in the case of serious natural events (inundations, dry periods, cattle diseases etcetera) that have led to harvest loss or cattle dying. This loss charge may not lead to a global loss (Parsche et al., 2001).

The *réel simplifié* scheme is compulsory for farmers with average receipts of between €76,000 and €350,000. It is also available for farmers who opt out of the *régime du forfait* and have a turnover of up to €350,000. The benefits include simplified administrative arrangements and a less burdensome accounting scheme.

Farmers and farm businesses with a two-year average turnover of more than €350,000 and those below this level who voluntarily opt for the scheme are assessed under the *réel normal régime*. This operates according to the same general principles of book-keeping and of basing tax assessment on profits that apply to business and industry (OECD, 2005).

Whether taxable agricultural income is lower under the fixed income calculation scheme than under book keeping is an empirical question. Depending on the type of farm, the farm size and the share of rented land, agricultural income calculated under the simplified income calculation scheme can be lower or higher than under book keeping (NILF, 2002). The OECD (2005) state that based on research by the agricultural division of INSEE, it would appear that for farmers earning more than €20,000, fiscal gains for those declaring their income under the fixed profit scheme represent about 7% of agricultural accounting income. Expert information tells us that the main reason for choosing the fixed profit scheme is that the taxable income is lower than under the accounting scheme. An additional reason for choosing this scheme is the lower administrative burden, which reduces the administrative costs. The choice between the schemes mainly is a calculation of the most favourable option. The underestimation of the fiscal income under the forfait scheme is also mentioned in Cahuzac and Marre (2000).

EU subsidies are included in the income under the real income calculation schemes. Forestry income is always taxed under the valuation scheme. The forest income is only dependant on the fixed annual value of land and is very low (EFAC, 2000).

Farmers may write off interest on loans acquired for running the farm. Expenses for National Insurance premiums are deductible from income, as are premiums to compulsory pension funds (see under *Capital gains tax*). Optional pension schemes must meet the standard of the law to allow premiums to be deductible. Optional programmes are deducible up to 7% of the agricultural income, to the maximum of €5,412.

3. Averaging of income and loss transfer allowed?

There is a favourable taxation condition for farmers who achieve exceptional incomes and are taxed under the *reel normal* scheme. They can use the quotient system: Farmers whose income is more than €15,250 and 1.5 times the three-year average, may claim that the share of benefit that is over this average should be taxed according to the quotient system. This implies that the three-year average is calculated and multiplied by 1.5. The income above this average is divided by 5 and the tax is calculated. This amount is multiplied by 5. The quotient system implies that extreme incomes are rated at a flat tax.

Under the *loi de finances*, savings of up to €21,200 per year (for an individual farmer) are deductible from tax (déduction pour aléas-*deduction for risks*). It allows farmers who are taxed according to a scheme based on real profits (*reel normal*) to deduct deposits on professional savings accounts as an expense (thus tax deductible from the overall agricultural profits). The account must be used in cases of unforeseen problems due to climatic or family conditions, or due to sharp decreases in income. The sum becomes taxable when used. The yearly deduction is at least €3,000 if the income is above that amount. It is 40% of the income up to €30,000 and 20% of the income above €30,000. The limit is €21,200.

A deficit in income may be carried forward up to the sixth year. Farming deficit is labelled as a 'categorical deficit'. It can only be deducted from other categories of income if the income of the other categories is less than €60,000. If the deficit cannot be deducted from agricultural or other income within the six-year period, it is lost for tax purposes. The only way to avoid this is by labelling the deficit as deferred depreciation. This may be carried forward without limit in time. They must be written off from the positive income prior to the losses of the previous years. Postponing depreciations can never lead to a positive farming income. Postponed depreciations must be set off against the very first positive farming income. Setting off postponed depreciations may never lead to a deficit.

Losses attributed to rental income may be set off against the aggregate income of the taxpayer, to a maximum of €10,671 annually and subject to a number of conditions.

Carry back is only available for associations, a business form that is hardly present in agriculture.

4. Depreciation and investment incentives

Depreciation is also deducted from farm income, according to the straight-line method based on the purchase or production costs of an asset and its economic life expectancy. Assets may be included in the balance sheet when they are necessary to the practice. However, production rights and most common production animals are not depreciable. There is no real difference between economic and fiscal depreciation. Some assets may be depreciated with the reducing balance method[1]. This concerns (only new) particular handling machinery, water-purifying equipment and energy production equipment (EFAC, 2000).

Farmers under the *regime réel* are allowed to deduct (as a tax allowance) a fraction of their profits to finance their stock, their fixed redeemable assets or their share in agricultural cooperatives over a period of five years (*déduction pour investissement*). Any depreciation (which is also tax deductible) of investments financed in this way must be decreased in equal proportion, thereby gradually reintroducing the tax. If the allowance is not used within the five-year period, it is written back into the income of the fifth year after the year it was deducted from the income. The deduction is at least €2,300 at an income of that amount. It is 35% of the profit up to a profit of €23,000. Of the excess amount, the allowance amounts 20% up to a total allowance of €18,660.

5. *Capital gains tax*

The capital gain is the surplus of the sale price of an asset over the cost of that asset minus the counted depreciation. If the sale price is lower than this net account value, the difference is a capital loss. Capital losses from the disposal of real property may not be offset against any income category (EFAC, 2000). The capital gains from the disposal of business assets by an individual may be taxed in two ways, depending whether they are short-term or long-term gains (IBFD, 2004):

- Short-term gains, i.e. gains from the disposal of assets held for *less than* two years are taxed as business income, with an option of spreading over three years. Losses can be deducted from the income;
- Long-term gains, i.e. gains from the disposal of assets held for *at least* two years are subject to tax at a reduced flat rate of 16% (increased by the social taxes CSG, CRDS and the social levy of in total 10%). Any recaptured depreciation is taxed as business income. Loss may be set off against other long-term capital gains in the ten coming years.

Certain capital gains are expressly exempt, such as those derived (under certain conditions) from the sale of the taxpayer's main home (*résidence principale*) or the sale of a building which price does not exceed €15,000 (Ministere de l'Economie des Finances et de l'Industrie, 2005).

There is an exemption for capital gains accruing to businesses that supply goods with a turnover up to €250,000. A partial exemption is granted to entrepreneurs that exceed that turnover limit (IBFD, 2004).

Under certain conditions, an exemption for professional capital gains exists for an individual when a complete activity's branch is sold. This exemption applies to companies on corporate tax (Ministère de l'Economie des Finances et de l'Industrie, 2005).

In the case of donation of the farm (only in case of complete transfer), there is an opportunity to avoid taxation. In this case the assets in the successor's balance sheets must be exactly the same as the retiring farmer's balance sheet. The new owner takes over the old owner's 'tax situation'. The same applies following the decease of the farmer. Capital gains

[1] A degressive depreciation method. The depreciation is calculated as a fixed percentage of the book value.

taxes are not paid if a farm that is transferred without charge continues its operation for more than five years. When a farmer is taxed under the valuation scheme, the sale of his farm has no influence on his taxation (EFAC, 2000).

6. *Allowances and tax reliefs*

Certain deductions from the aggregate income are related to the family situation of the taxpayer and other types are granted independently from the taxpayer's family situation. From 1 January 2004, subscribers to individual pension savings plans are entitled to a deduction for the premiums paid. The allowance is generally limited to 10% of the taxable income or €23,770, whichever is lower.

An employment bonus (*prime pour l'emploi*- tax credit) is granted to each eligible working member of a tax household, provided that the aggregate income of the tax household is below €12,176 (doubled for couples) and increased by €3,364 for every half share exceeding the initial (single or couple). Eligible working members are the employed or self-employed earning up to €15,734 (€23,968 for a singles, divorced or widowed person with one child or more; or for a married person with a non-working spouse). The credit is equal to 4.6% of the annual employment or self-employment income earned when not exceeding the minimum wage (€11,239). The credit is increased by €33 for each dependent person (double for the first child of a singles, divorced or widowed person) and by €80 for a married non-working spouse. The amount of the tax credit decreases when income is over the minimum wage. The rate of decrease is 11.5% of the amount above the minimum wage. The maximum bonus is €575 per person.

Expenses incurred to acquire the earned income from wages and pensions are taken into account notionally. This can be considered as an allowance.

Gift to non-profit organisations produce a tax credit equal to 60% of the gifts, subject to a limit of 20% of the taxable income. There are no allowances, deductions or credits for medical costs or life insurance premiums.

Taxpayers who are subject to income tax and whose accounts are managed by an accounting office benefit from a 20% tax allowance on profits taxable under the *reel* scheme (OECD, 2005/IBFD, 2004). The allowance is at most 20% of €117,900. This allowance only applies for the personal income tax.[1]

7. *Tax rates (including social security and other obligatory contributions)*

Income tax is paid according to the gross aggregate income from the 7 different income categories. The agricultural income is one of the categories, whether it is the actual income or calculated under the *régime du forfait*. The net aggregate income is determined by applying the personal deductions and allowances. The aggregate net income is then divided by a coefficient (see table A5.1) to obtain the net taxable income per share. The tax table rate (table A5.2) is then applied to the result; the tax thus computed is then multiplied by the same coefficient to obtain the gross tax burden. The children are only taken into account if they are younger than 21, or younger than 25 years of age and still studying. If a child is in need of help, the age is irrelevant.

[1] From 2007 (taxation of income of 2006), the 20% allowance will be integrated in the tax system. This implies that the assessed income of farmers who are currently not eligible for the allowance will be raised by 25%.

Table A5.1 Number of shares

	'Share'
Single	1
Married	2
1st child	0.5
2nd child	0.5
3rd child	1
4th child, etcetera	1

Source: IBFD (2004).

The family coefficient system results in an effective limitation of the progression of the income tax. However, the resulting tax benefit may not exceed certain thresholds. For every half share exceeding the initial one share or the initial two shares, the tax advantage may not exceed €2,086.

Table A5.2 Tax rates per share excluding social welfare

Taxable income per share (€)	Rate (%)
Up to 4 334	0
4 334 - 8 542	6.83
8 542 - 15 004	19.14
15 004 - 24 294	28.26
24 294 - 39 529	37.38
39 529 - 48 747	42.62
Over 48 747	48.09

Source: IBFD (2004).

As a general rule a worker (self-employed or a wage earner) is affiliated to the social insurance scheme that is related to his activity (EFAC, 2000). In France, farmers, their families and workers, have their own collective social security system the MSA (Mutualité Sociale Agricole). The general coverage concerns:

- health insurance (AMEXA): The rate is 10.84% of the income with a minimum basis of €5,752;
- child support (*Allocation familiales*): 5.4%;
- insurance for the compulsory pension scheme (*Assurances Vieillesse-AV):* 3.20%, with a minimum and maximum base of €5,752 and €29,712 respectively;
- complementary pension (voluntary): 10.97%, with a minimum base of €4,314 and a maximum of €29,712;
- insurance for work casualties and professional diseases (*l'assurance accidents du travail-ATEXA*). The contribution is about €300 for the entrepreneur and €100 for other workers;
- additional pension *(La Retraite Complémentaire Obligatoire-RCO*): 2.97% with a maximum base of €14,071.

Paid contributions (except for the voluntary complementary pension) are deductible from the taxpayer's income IBFD, 2004).

Aside from the social premium, France also levies a social contribution (*contributions social*). This is composed of the CSG (*contribution social généralisée* or general social contribution) and the CRDS (*contribution au remboursement de la dette sociale* or contribution for the redemption of the social debt). The rate for the CSG is 7.5% (of which 5.1% deductible) and the rate for the CRDS is 0.5%, which is not deductible. A social levy of 2% applies to income for immovable property and investment income. The social levy does no apply to employment income. The levy is not deductible for income tax purposes.

Young farmers get a discount on payments for social securities during a period of five years. The discount is reduced gradually and ranges from a deduction of 65% in the first year (max. €2,467) to 15% in the fifth year with a maximum of €571. The discount does not apply to CSG, CRDS, ATEXA et RCO (MSA, 2004).

Business tax (*taxe professionnelle*) is chargeable annually to corporate bodies or individuals habitually carrying on business in France as self-employed. Various exemptions are provided for. Agricultural activities are exempt for the local business tax (Ministere de l'Economie des Finances et de l'Industrie, 2005).

B.1 Tax on property

1. Object of taxation

Real estate is subject to a property tax and a dwelling tax, both of which are collected by local government (OECD, 2005). Property tax is a local tax and distinguishes between

- real property tax on developed land: Taxable property include all constructions fixed to the ground, designed to last and showing the characteristics of true constructions;
- real property tax on undeveloped land: This tax is levied annually with respect to the holding of any undeveloped land;
- residence tax: sufficiently furnished housing premises and their outbuildings (gardens, garages, private parking space) are subject to residence tax.

2. Valuation

Developed property is valued for tax on half the estimated rental value of the property as determined by the local land registry. *Un*developed property is valued for taxation at 80% of the estimated rental value of the property. Dwelling tax is assessed by multiplying the estimated rental value of the dwelling as determined by the local land registry by coefficients determined by the local authorities (IBFD, 2004).

3. Allowances and tax reliefs

Agricultural land is exempt from both the real property tax on developed (permanent exemption) and undeveloped land (temporary exemption).

There is a concession on land tax in case of natural disaster but this is only applicable for owners of undeveloped land.

4. Tax rate

Tax on developed property is computed by applying certain coefficients determined annually by the local authorities to half the estimated rental value of the property. Tax on *un*developed property is computed by multiplying 80% of the estimated rental value of the property by coefficients determined by local authorities (IBFD, 2004). In all cases the proprietor is taxed. The tenant is usually asked to reimburse a fifth of the taxed amount to the proprietor. The rates of tax will vary from region to region due to the varying rates of tax imposed by the regional and local governments. Table A5.3 shows the average rates for the year 2002.

Table A5.3 Average tax local taxes 2002

	Developed	Undeveloped
Municipal	17.59%	42.03%
Departmental	8.48	20.26%
Regional	1.98%	4.88%

Source: expert information.

B.2 Tax on wealth

1. Object of taxation

Resident individuals are subject to an annual net wealth tax on assets owned on 1 January of the tax year minus liabilities.

2. Valuation

Valuation of assets for wealth taxation is based on the fair market value of the assets.

3. Allowances and tax reliefs

Various assets are exempt from tax, including business assets, substantial shareholding (>25%) held by managing directors and certain life insurance policies.

Wealth up to €716,510 is tax-free. A system of upper limit aims at capping the aggregation of wealth tax and income tax to 85% of the aggregate income. If this percentage is exceeded, the wealth tax is reduced by the excess.

4. Tax rate

Table A5.4 shows the tax rates for the wealth tax.

Table A5.4 Wealth tax rates in France 2004.

Taxable value (€)	Rate (%)
Up to 720,000	0
720,000 - 1,160,000	0.55
1,160,000 - 2,300,000	0.75
2,300,000 - 3,600,000	1.00
3,600,000 - 6,900,000	1.30
6,900,000 - 15,000,000	1.65
Over 15,000,000	1.80

Source: IBFD (2004).

C. Inheritance and gift tax

Inheritance and gift tax is imposed by the state on property acquired by inheritance or gift. The rules differ slightly according to whether the acquisition of the property was by inheritance or by gift, but are basically the same.

1. Valuation

Inheritance tax is levied on the fair market value of the transferred assets less related liabilities. In the case of gifts liabilities are not deductible.

2. Allowances and tax reliefs

The most significant allowances include:

- €76,000 for inheritances between spouses. €46,000 in direct lines. €30,000 from grandparents to grandchildren;
- €57,000 for unmarried individuals who live together and have entered into a partner contract;
- €1,500 if no other allowance is available.

Certain assets are wholly or partly exempt from inheritance tax. These exemptions are among others related to the nature of the assets transferred (for example immovable property classified as historical monument and woodland). Certain allowances or tax credits are available for the transfer of the ownership of a principle residence depending on the duration of ownership. In all cases inheritance tax, due on the transfer of a principal residence occupied by the beneficiary is levied on 80% of the value of the residence.

From 1 January 2004, under certain holding commitment conditions, 50% of shares in companies and assets in business are exempt from inheritance and gift tax, provided that at least one of the beneficiaries undertakes to run the company or the business.

An heir to a farm who has to compensate his co-heirs is allowed to value the land at about half of its open market value (OECD, 2005).

A spreading option is available mainly with regard to the payment of inheritance and gift tax where a business is concerned.

Children of a farmer can claim deferred wages ('salaire différé') if they have worked unpaid on the farm after the age of 18. The deferred wages are not taxable under gift and inheritance tax and are free from personal income tax. The level of this deferred salary is calculated as 2/3 times 2,080 times the legal minimum wage, which was in 2003 about €7 per hour. In 2003 the maximum amount of differed wages is €99,700.

3. Tax rate

Rates vary to the amount and kinship between donor and beneficiary (table A5.5).

Table A5.5 Inheritance and gift tax rates in France 2004.

Taxable amount between spouses/ direct lines (€)	Rate (%)	Taxable amount direct lines (€)	Rate (%)
Up to 7,600	5	Up to 7,600	5
7,600 - 15,000	10	7,600 - 11,400	10
15,000 - 30,000	15	11,400 - 15,000	15
30,000 - 520,000	20	15,000 - 520,000	20
520,000 - 850,000	30	520,000 - 850,000	30
850,000 - 1,700,000	35	850,000 - 1,700,000	35
Over 1,700,000	40	Over 1,700,000	40

Source: IBFD (2004).

For other relationships, the following applies (IBFD, 2004):

- between siblings, the rate is 35% on the first €23,000 and 45% on any excess;
- between partners with an official partner contract, the rate is 40% on the first €15,000 and 50% on any excess;
- the rate is 55% on any amount for blood relatives up to the fourth degree;
- the rate is 60% in all other cases.

D. Other

1. Transfer tax

When real estate is transferred in return for payment, a transfer tax is paid at a 4.8% rate. For farm estate the rate may be lowered to 0.6% if the tenant farmer buys the land he used to rent (EFAC, 2000).

2. Value Added Tax (VAT)

France has a separate agricultural VAT system. There are two VAT schemes in agriculture based on sales volumes, although the second one is comparable with the normal system in most of the other analysed countries:

- *Remboursement forfaitaire* (RFA, accounting for 25% of farmers liable for VAT in 1998 although the number of farmers eligible is decreasing steadily as the industry modernizes). This system applies to farm businesses with average receipts of less than about €45,700 in two consecutive years. It provides a lump sum reimbursement: the farmer pays the VAT on his purchases without being reimbursed and the farmer does not charge VAT on his own sales. In return he receives a fixed payment for sales from the State. This rate is 4% for most animal products, oil bearing and high-protein crops and cereals and 3.05% for the other products (Cahuzac and Marre, 2000);
- *Régime simplifié agricole* is compulsory for businesses with average sales above €45,700. If the VAT paid in one fiscal year is greater than the sum paid by the farmer, the difference is compensated by the state. In the opposite case it is the farmer who reimburses the difference. The VAT is thus a neutral factor for the farmer under this scheme, just as it is for other professionals (OECD, 2005).

Irrespective of the scheme, the sales of the farmers are taxed at a 5.5% VAT-rate. The standard tax rate is 19.6%.

3. Excise duty

Excise duties concern oil products, spirits and tobacco. Agriculture has preferential treatment on TIPP fuel tax (on diesel) In order to expand the outlets for certain agricultural products and contribute to better environmental protection, the government encourages production of colza diester and bioethanols by exempting a certain volume of 'green fuels' from payment of TIPP (OECD, 2005).

The standard rate is €41.69 per 100 litres. Farmers get a repayment of about 10%.

4. Environmental taxes

France has several environmental taxes for waste management, fuel, energy, water abstraction, water consumption, and motor vehicles (OECD-website).

The Inland duty of Consumption on Natural gas (TICGN) is due by the distribution and haulage companies for users who use more than 5 million KwH (511,000 m^3). The tax rate is €1.19 per 1,000 KwH (1.16 Eurocent per m^3). The people who exploit greenhouses and use natural gas as combustible for their heating can obtain a refunding of the TICGN:

- €0.71 per 1,000 KwH (0.69 Eurocent per m^3) of gas acquired between January 1 and August 31 (2005);
- €0.95 per 1,000 KwH (0.93 Eurocent per m^3) of gas acquired between 1 September and 31 December (2005).

Tax rates on electricity are set locally by the communes and the départements. They are not allowed to exceed 8% for the communes and 4% for the départements. No tax relief for agriculture exists (Parsche, R. and D. Radulescu, 2004). The mean level is of 7.8 Euros/MWh for residential users and 0.5 Euros/MWh for companies (Eurogas, 2004). The distinction is based on whether a high or low voltage is used (Petras, 2002).

5. Other

-

E. Examples

<u>*Partnership*</u>

Assumptions:

- income of the farm: €50,000;
- 2 entrepreneurs;
- 2 young children.

Income:		50,000
Deduction for the use of accounting offices (20%)		10,000
Income per entrepreneur	(50,000-10,000)/2	20,000

Social contributions per entrepreneur

Health Insurance (AMEXA)	(10.84%*20,000)	2,168
Child support	(5.40%* 20,000)	1,080
Insurance for the compulsory pension scheme		
3.20%* 20,000		640
Additional pension	(*RCO*) 2.97% * 14,071 (max. base)	418
Total social security contributions per entrepreneur		4,306
Total social security contributions excl. insurance		8,612
Insurance for work casualties and professional diseases		
(283+ 142)		425
Total social contributions		9,037

Social taxes (for total family)

CSG	(7.50%*40,000)	3,000
CRDS	(0.50%*40,000)	200
Total		3,200
Of which deductible	(5.10%*40,000)	2,040

Total income	40,000
-/-Social contributions	9,037
-/-Social taxes	2,040
Taxable income	28,923

Number of shares: 3

Taxable income per share		9,641
Income tax per share	(0%*4,334+ 6.83%*4,208 + 19.14%* 1,099)	498
Total income tax family	(498*3)	1,493

Income tax	1,493
Social security contributions	9,037
Social taxes	3,200
Total taxation	13,730

One-man business

Assumptions:

- income of the farm: €50,000;
- 1 entrepreneur1;
- 2 young children.

Income:	50,000
Deduction for the use of accounting offices (20%)	10,000
Taxable income	40,000

Social contributions

Health Insurance (AMEXA)	10.84%*40,000	4,336
Child support	5.40%* 40,000	1,080

Insurance for the compulsory pension scheme		
3,20%* 29,712 (max, base)		951
Additional pension	(*RCO*) 2.97% * 14,071 (max, base)	418
Total social security contributions excl, insurance		7,865
Insurance for work casualties and professional diseases		
(283+ 142)		425
Total social contributions		8,290
Social taxes (for total family)		
CSG	(7.50%*40,000)	3,000
CRDS	(0.50%*40,000)	200
Total		3,200
Of which deductible	(5.10%*40,000)	2,040
Total income		40,000
-/-Social contributions		8,290
-/-Social taxes		2,040
Taxable income		29,670
Number of shares: 3		
Taxable income per share		9,890
Income tax per share	(0%*4,334+ 6.83%*4,208 + 19,14%* 1,348)	545
Total income tax family	(545*3)	1,636
Income tax		1,636
Social security contributions		8,290
Social taxes		3,200
Total taxation		13,126

Literature

Cahuzac, J. and B. Marre, *Rapport à l'attention de Monsieur le Premier Ministre, sur les adaptations à apporter à la fiscalité et au mode de calcul des cotisations sociales agricoles*. 2000.

CCIP, http://www.environnement.ccip.fr/energie/aides-taxes/tipp-ticgn.htm.

DIRECTION GÉNÉRALE DES IMPÔTS, several internet publications.

EFAC, *Taxation of Agriculture in Europe*. Kluwer, Deventer, 2000.

Eurogas, *Energy taxation in Western Europe as of 1 January 2004*. 2004.

Eurostat, *Structures of the taxation systems in the European Union*. Luxembourg, 2004.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings: France 2003*. Luxembourg, 2005.

IBFD, *European Tax Handbook 2004*. Amsterdam, 2004.

Ministère de l'Economie des Finances et de l'Industrie, *French Taxation*. 2005.

MSA (Mutualité Sociale Agricole), Bareme Cotisations NSA 2004 Dept 57, *http://www.msalorraine.fr/files/msalorraine/msalorraine_1120039242838_BAR_ME_COT.NSA_2004_DEPT_54_ET_88.pdf*. 2004.

NILF, *Taxation of Agriculture in selected countries; Study of The United States, Canada, Australia, Germany, United Kingdom, Ireland, France, Switzerland and Italy with relevance to the WTO*. Oslo, 2002.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security*. Working Party on Agricultural Policies and Markets, 2005.

OECD-website, http://www2.oecd.org/ecoinst/queries/index.htm.

Parsche, R., P. Haug, A. Marcelo, C. Woon Nam and B. Reichl, *Internationaler Vergleich der Systeme zur Besteuerung der Land- und Forstwirtschaft.*: IFO, Institut für Wirtschaftsforschung, München, 2001.

Parsche, R. and D. Radulescu, *Taxing means of agricultural production in Germany: relatively high tax burden compared to other important EU competitors*. 2004.

Petras, *The Design of Ecological Tax Reform: The French Ecotax*. 2002.

Veen, H.B. van der, K.H.M. van Bommel and G.S. Venema, *Family Farm Transfer in Europe, A focus on the Financial and Fiscal Facilities in Six European Countries*. LEI, The Hague, 2002.

Vial, B., *French agriculture in the context of Europe*; 2001.

Consulted experts

- Harm Hof
  Europe Ruris
  Internet: www.europeruris.com
- Christian Jacquot
  Bureau Etudes fiscales
  Internet: www.agriculture.gouv.fr

Appendix 6. Germany

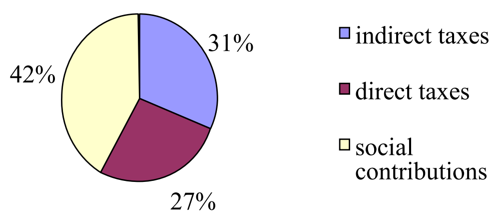
In 2003 there were about 390,200 farms with a size of at least one ESU. Compared to 2000, this is a decline of 13%. The decrease in the number of businesses is related to the developments in the western part of Germany. On the other hand, there is an increasing number of businesses in East Germany as a result of the recovery and restructuring of smaller agricultural units since unification. In 2003 these farms provided work for 693,300 Annual Work Units (AWU) and used 16.9 million ha of agricultural land (averaging 43.3 ha per holding). About 31% of the farms are quite small with less than AWU, compared to 28% of the farms, which use 2 or more units of labour. If we look at the number of ha, then 20% used less than 5 ha compared to 7% using more than 100 ha. Most farms (79%) are specialised holdings. The main products are dairy, cereals, oil seed and protein crops and field cropping. About 3% of the area is organic farming (Eurostat, 2003).

Post-unification changes in the political, economic and legal frameworks led to major structural changes in East German agriculture. While West Germany continues to be dominated by relatively small family farms, the East German agriculture is still dominated by farms with an average acreage of more than 500 ha. Moreover, there is a large variety of different legal forms, for example family farms, partnerships, corporate farms, stock companies, and cooperative farms. The structural evolvement process is still highly dynamic (Lissitsa and Balmann, 2003).

The total tax-to-GDP ratio in Germany is above the European average. Due to the unification process in particular, this ratio rose significantly during the early 1990s. Most of this increase stemmed from increases in social contributions. Germany stands out with the highest social contributions in the EU-15. The shares of direct and indirect taxes are amongst the lowest in the Union. The relatively low share of indirect taxes can largely be explained by moderate rates on excise duties and also by relatively low other taxes on products and production. Looking at the classification of taxes by receiving level of government, Germany furthermore stands out with relatively high tax revenues that are apportioned to state government. The so-called 'Länder' have a substantial share in the revenue of VAT, the wage withholding tax, the personal income tax collected by assessment and the withholding tax on interest distributions. The 'Länder' are also entitled to revenues from other taxes, such as estate, inheritance and gift taxes, taxes no transfer of property and tax on motor vehicles (Eurostat, 2004).

Figure A6.1 shows the structure of total revenues and the structure according to level of government.

Germany: structure of revenues
(total revenue is 42,2% of GDP) 2002



Structure according to level of government

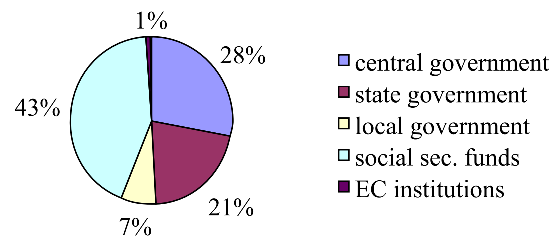


Figure A6.1 Structure of German tax revenue according to total revenue and level of government.
Source: Eurostat (2004).

A. Tax on income, profit and capital gains

1. Main tax system

In 2003, 1,3% of all agricultural businesses was registered as incorporated holdings. Most of the farms structured as companies or legal persons were located in the East. These businesses use about 18% of the agricultural area (EFAC, 2000). The main tax system is consequently the personal income tax.

2. Method of income calculation

Income taxation is based on 7 different categories of income. The categories are income from:

- agriculture and forestry;
- trade or business enterprises;
- professional and independent personal services;
- wages and salaries;
- capital investments;
- private property rentals;
- specifically defined other source (in particular interest rents of pensions, speculative transactions etcetera)

Income from the first 3 categories is defined as profit for tax purposes. According to the German Income Tax Act, 'profit' is defined as the difference between the business assets at the end of each tax year and the end of the preceding tax year, plus withdrawals minus contributions (*the net worth comparison method*, IBFD 2004). For the last 4 categories, income is defined as the excess of receipt over expenditure to acquire, secure or maintain revenue (*net income method*, IBFD 2004).

If the profits of an unincorporated business are lower than €30,000 and the turnover does not exceed €350,000 and in the case of agricultural farms the economic value of the agricultural land[1] under own cultivation is less than €25,000, the net income method can be chosen (i.e. no bookkeeping is required) for the first 3 categories of income (IBFD, 2004). Only cash flow (income less expenses) is accounted for in this method.

For agricultural and forestry income (category 1 income), there is a separate method (*per unit valuation,* EFAC (2000)) of determining income. Only farms meeting the following criteria can apply this per unit valuation method:

- there is no obligation to bookkeeping;
- there are no more than 50 livestock units on the farm;
- farm size is no larger than 20 ha of arable land;
- and the economic value of land for subsidiary activity (forestry, wine-growing, fruit-growing, market gardening, other special things of agricultural production) is no more than DM 2,000 (not to be converted into euros as it is an assessed value of fiscal law) per subsidiary farming activity. Should the economic value exceed the DM 2,000 value, the flat rate method cannot be applied at all, leaving agricultural income to be regarded as regular business income (EFAC, 2000/AID, 2004).

The *per unit valuation* method allows the taxable profit to be calculated based on an 'average amount', determined by a flat method. Instead of fixing the actual profit/loss this method involves an estimated profit on a legally based average amount (or per unit) valuation. This profit calculating method consists of the following elements:

- a profit valuation per hectare, depending on the value of land (valuated according to table A6.1.) and special income from subsidiary farming activity provided the economic value of the related land doesn't exceed DM 2,000. Income from subsidiary activity is also assessed according table A6.1. However assessment differs if the economic value of land exceeds DM 500. In that case a lump sum of €512 is regarded as profit. For gains coming from forestry the net income method is obligatory;
- separately determined profits if they exceed a general allowance of €1,534, on forestry, sale of land, transfer of the business, services for other non-farming businesses, cashing of savings for reinvestment or replacement;
- received rent payments less paid rents, interests and enduring commitments.

Table A6.1. Per unit hectare profit valuation

Economic value (DM)	Estimated profit per hectare (€)
<300	205
300-500	307
500-1,000	358
1,000-1,500	410
1,500-2,000	461
>2,000	512

Source: AID (2004).

Beyond the prerequisites of land and livestock units of the *per unit valuation* method, income is considered as income from trade and business (category 2), and thus subject to an

[1] The baseline is a special tax value, which is much lower than the real value.

extra Business Tax on income levied by municipalities (See Business Tax) (EFAC, 2000). In practice however, German farmers rarely exceed the norms for agricultural income, and thus rarely have to file for Business Tax. Even if they were required to pay business tax, there is a lump-sum deduction which can be applied by unincorporated businesses. This almost always nullifies the net tax due.

If an agricultural business does not apply for income tax, the authorities will estimate income, mostly based on the size of the farm.

Of the farms in Germany, 177,886 farms are subject to accounting obligations, 73,687 small farms apply a simplified per unit valuation method and 43,793 use a profit calculating method. Furthermore 19,216 farms had their income estimated by the finance authorities (BMVEL 2004, and personal information by the Ministry). Although about a quarter of the farms use the simplified system, their share in the agricultural production will be more limited, since only smaller farms are allowed to apply this system.

Expert information shows us that for some farmers the simplified per unit valuation method is the most favourable one, while for others the opposite is true. The last group would benefit from changing to the bookkeeping scheme. Most of the farmers have land with an economic value between 1,000 and 2,000 DM, which produces an estimated profit of €410 or €461. The average family farm income[1] per hectare in the years 2001-2004 in Germany was €361 (FADN). This figure is the average for all farms, ranging from small to larger farms and for all categories of agriculture. The estimated profit is higher than the average income. Since the income per hectare will show a large spread, some farms will have an income that is actually higher than the estimated value, but a large share of the farmers might actually have a lower profit that the estimated one.

The tax year is the calendar year. Agricultural and forestry income, which often applies a different financial year (1 July to June), has to be averaged over the tax year (forestry normally has another financial year).

Partnerships, also including a limited partnership with a corporate general partner, are taxed as natural persons. Income is jointly assessed but allocated to each single partner. Partnership based on private law is the most frequently used partnership form within family structures of agricultural and forestry businesses (EFAC, 2000).

The aggregate income (of all 7 categories of income), less personal deductions, is the taxable base to which the allowances and rates are applied (IBFD, 2004). Deductions can be divided into limitedly and unlimitedly deductible expenses as shown in figure A6.2.

[1] The family farm income is business economic income and not fiscal income. However, it gives an indication of the profitability of the agricultural sector.

Limited	Unlimited
Contributions to health insurance	Church tax
Lump-sum payments under the statutory pension scheme	Tax consultant fees
Scholarships for research, scientific, artistic education and training	Enduring commitments (for ex. for the livelihood and accommodation of the older generation)
Tax privileged donations	Some pension payments
Necessary expenses for maintenance of two households	

Figure A6.2 Limited and unlimited deductible expenses
Source: IBFD (2004).

Limited deductions are set at €1,334 per spouse (although there is a discrepancy between the limited deductible expenses - for example, one must differentiate between contributions to health insurance and scholarships. The latter has another limit). Individuals deriving income other than income from employment may qualify for an additional deduction of €3,068 per spouse. Any exceeding expenses are deductible up to half their amount with a maximum of €667 per spouse.

Forestry is a particularly important sub-sector in Germany. In 2003 there were 22,191 private businesses active in forestry with a total acreage of over 2 million ha. 19,576 of these businesses are specialised forestry holdings accounting for over 1.6 million ha. The rest are agricultural holdings with a forestry sub-sector.

Forest businesses not obliged to bookkeeping can request to deduct 65% of their receipts as costs. This is a flat rate deduction.

3. *Averaging of income and loss transfer allowed?*

The carry-over of losses is allowed. In general, losses up to €511,500 may be carried back to the preceding year. Any excess losses may only be carried forward to be set off against the first €1 million of net income in a given year without restrictions; any remaining losses may be set off against up to 60% of the net income exceeding this limit. In both cases, the loss carry-over is applied before the tax base has been reduced by special and extraordinary expenses, with the result that the deduction of such expenses is reduced or even totally cancelled in years in which a loss carry-over is applied.

Capital losses from private transactions may only be carried over to be offset against capital gains from private transactions in the previous year or in the following years. Activities with continuous losses (evaluated over a period of ten years) are considered as a hobby. Consequently carry-over of losses cannot be applied.

4. *Depreciation and investment incentives*

Depreciation is generally calculated by dividing the purchasing cost of the asset by its economic life expectancy (linear method). Either the linear method or the digressive method can be applied for depreciation of movable and immovable assets (albeit not normally applied to the latter), although they are not interchangeable. The linear method is compulsory with the net income valuation (Bayerisches Staatsministerium der Finanzen Presse und Öffentlichkeitsarbeit, 2002 /EFAC, 2000). Under the per unit valuation method depreciation is not applicable. Depreciable assets can be divided into three groups:

- intangible assets;
- immovable assets;
- movable assets.

Intangible assets are only accounted for if acquired or transferred into the business. However, granted delivery must not be accounted for and are thus not depreciable. Consequently there is a high taxable profit at sale (as the booking value is €0). Acquired delivery rights are depreciable over an estimated fixed period of 10 years (EFAC, 2000). Land is not depreciable, although it is possible to adopt a reduced value in the case of a constantly declining market value. The fixed value of land can be allotted with a reduced value as if the whole enterprise would be sold.

In certain cases, an advanced depreciation can also be applied. Such exceptions are limited to agricultural and forestry firms with a maximum total unit value (see A1) of €122,710 or business assets of up to €204,516. Here, extra depreciation can be applied to assets within the year of purchase and the four following years up to 20% of the cost of acquisition. The extra depreciation is granted in addition to the linear and digressive scheme. The taxpayer is allowed to distribute the extra depreciation or parts of it to a following tax period (EFAC, 2000).

If movable assets acquired or manufactured are depreciated according to the digressive method, the annual rate of depreciation is limited to twice the allowable straight-line rate with an overall maximum of 20%. For assets acquired before 1 January 2001 the limits are three times the allowable straight-line rate with an overall maximum of 30%. The depreciation method chosen is optional, however transfer from a linear method to a digressive method is not allowed. Below a value of €410 assets can be depreciated in a single year (IBFD, 2004)

All farm buildings regarded as business property such as stables, barns, sheds, granaries, offices and glasshouses with basic installations are accounted for and depreciated separately from land. Only preserved farmhouses and accommodation can still be chosen to be part of an agricultural or forestry business, due to the high costs of maintaining and preserving old buildings. The costs of land improvements are principally regarded as business costs reducing the taxable profit. In certain cases, land improvement can be considered to increase the book value of land. These measures include creating arable land on dumpsites or military training camps. Land improvements can only be considered as assets and thus be depreciable in certain cases. Improvements can be considered as assets in case of (1) gaining arable land by ploughing up old pastures where this is still permitted and when (2) costs of land improvements in general, if spent close after acquisition, cover more than 15% of the acquisition value and contribute to increased profitability of the land in a significant way. These assets can be depreciated in accordance with their economic life over a period of at least ten years.

Machinery and equipment are valued at their cost of acquisition or construction. Animals are considered to be part of the fixed assets if appointed to be used in the business of agricultural production. Depreciable fixed assets include breeding cattle, dairy cows and hens. Valuation in both cases is equal. Depreciation rates can vary from 10% for broodmares to 33.3% for dairy cattle, 50% for boars and 75% for laying hens. One can also claim the right to value livestock below the value of €410, enabling full depreciation in a single year (however a so-called 'slaughtering value' remains for animals).

With regard to plantations such as arboriculture and fruit culture, only permanent plantations are considered as depreciable fixed assets. The definition of permanent plantations covers plants grown for food, fodder, ornamental and industrial purposes. Depreciation rates vary between 20% for asparagus plantations, 10% for fruit trees and conifers to 5% for hops and vineyards. 'Standing timber' in forestry is considered as a non-depreciable asset.

A special investment incentive exists for small and medium sized enterprises. The deduction is 20% of the investment in machines[1]. Besides the investment reserve (see A6, capital gains), investment aid is also given in the form of a deduction of interest rates or in the form of one-amount subsidies.

Federal allowances to agriculture such as grants, premiums, compensation and subsidies are directly related to the business and therefore in general part of the agricultural income. They have to be allocated to the taxable profit (EFAC, 2000).

5. *Capital gains tax*

Capital gains arising in the course of a business are treated as ordinary business income (IBFD, 2004). Only in the case of net worth comparison the development of assets' value may lead to taxation, especially the increase of real estate. Capital gains are normally fully included in the tax base and taxed at ordinary tax rates upon realisation (EFAC, 2000).

Up to 100% of capital gains from the sale of assets may reduce the acquisition or manufacturing cost of the same kind acquired or manufactured in the same year or in the preceding year. If the taxpayer does not acquire or manufacture the replacement assets in the financial year in which the gain was realised, a reserve may be set up for a maximum period of 4 years. If the reserve is not used in time to reduce the acquisition or manufacturing cost of replacement assets, it must be dissolved, and 50% of the gain must be added to the taxable income of that financial year. In addition, the taxable amount is increased by 6% for each full financial year during which the reserve was kept. For rollover relief for gains on assets other than shares, the same rules apply for individuals and companies (IBFD, 2004).

Granted delivery rights such as quota are not accounted for in the balance sheet. Profit gained by selling quota is a regular profit of the business. Income gained from the leasing out is considered as rental income from private property rentals (EFAC, 2000). Profit gained from selling an agricultural business is regarded as agricultural and forestry income. When selling a whole business a special tax rate reduction can be applied for extraordinary income, which has a reducing impact on full taxation of income from the sale (EFAC, 2000). Only 50% of the average tax rate is applied. Entrepreneurs who are older than 55 years or are disabled can only once apply this arrangement. The sale of a farm is considered as a whole under the condition that all essential assets (farm land and buildings) are sold, with an exemption in the case that 10% of the land is retained. In case more than 10% is retained, the sale will not be considered as a whole, and thus leads to a currently

[1] The percentage will be 30% from 2007.

taxable profit without applicability of special tax incentives. Only when a complete business is sold, special tax incentives can be applied. The special tax incentive consists of an allowance of €30,677 in case the profit is less than €153,387 and the owner of the business is older than 55 years. Cessation of the business is treated the same way as the selling of a business. Discontinuation or sale of parts of the business is considered in the same way as the sale of separate assets would be, leading to full taxation of the hidden reserves (EFAC, 2000).

A special deduction method has been created to determine the taxable income on the profits related to the selling or closing down of an enterprise. It is calculated in three steps. Firstly, the taxable income and the tax on that amount must be determined without the extraordinary income. Secondly, 1/5 of the extraordinary income must be added to the taxable income and again the tax on that amount must be determined. Thirdly, the difference resulting from both steps of tax determination is multiplied by the factor 5 and the result added to the tax amount already determined in the first step of the calculation. The result is the tax incentive granted for extraordinary income. The tax rate reduction scheme is only granted by request since 1999.

The transfer of a business to a nominated successor or hereditary succession is not regarded as cessation of the business. The successor continues the business of the predecessor due at its book value.

6. Allowances and tax reliefs

A basic allowance, which is deducted from the taxable base, is granted to every resident taxpayer. It is currently €7,664 for a single person and €15,329 for jointly assessed spouses.

For every dependent child of the taxpayer, the following two annual lump-sum deductions are available:

- A child deduction of €1,824 per spouse and per child;
- A deduction for child care, upbringing and education of €1,080 per spouse and per child.

Agricultural income has a privileged allowance, provided that income is lower than €30,700 (€61,400 for a couple). An extra allowance of €670 can be deducted for a single person and €1,340 for jointly assessed spouses.

Individuals deriving business income which is subject to both individual income tax and Business Tax are granted a lump-sum credit against individual income tax (IBFD, 2004). The lump sum credit is 180% of the assessment basis for Business Tax (see A5 for Business Tax). The maximum effect is that in some cases no income tax is due on the business income (IBFD, 2004). In some cases the saving effect with regard to the income tax is even higher than the paid business tax.

7. Tax rates (including social security and other obligatory contributions)

Table A6.3 shows the federal tax rates for individuals for 2004. The rates increase within the brackets.

Table A6.3 Tax rate for single persons (joint assessment doubles the taxable brackets)

Annual taxable income	Marginal rate (%)
< 5,074	16-24.05
5,074-44,486	24.05-45
Over 44,486	45

Source: IBFD (2004).

Spouses can opt to either be taxed separately or together. If no separate taxation is declared, spouses will be taxed together. Lastly a 5.5% solidarity surcharge is levied on the amount of tax that is computed on the basis of the table. If the income tax is less than €972 (€1,944 for couples), then no solidarity surcharge is levied. If the amount of tax is higher than the threshold, the tax is calculated over the total tax amount. However, the solidarity surcharge can only be 20% of the income above the threshold (Bayerisches Staatsministerium der Finanzen, 2004).

Income from business and trade (basically income category 2) is also subject to Business Tax on income. The tax base for Business Tax is profit determined under the income rules. German municipalities levy this tax. The effective Business Tax rate depends on a basic federal rate of 5% and a municipal (and thus variable) multiplying factor which on average is nearly 400% (IBFD, 2004).

The rate of corporate income tax for both retained earnings and distributed profits is 25%, increased to 26.38% by the 5.5% solidarity surcharge.

The following social security contributions are payable by employees (for 2004):

1. pension insurance;
2. health insurance;
3. unemployment insurance;
4. insurance for disability and old age.

Under certain circumstances, self-employed persons may be voluntarily insured in the statutory schemes 1, 2 and 4. In these cases, the insurance company fixes the rates or the contribution. They may also opt for private insurance, in which case the rates are also fixed by the insurance company (see below). In any case, the self-employed must pay contribution on their own.

Germany has a special statutory system of social security for agriculture, which most farmers apply to, the Landwirtschaftliche Sozialversicherung (LSV). The premiums are determined and collected by independent regional institutes (LSV). The security covers:

- Accident insurance: contribution depending on the amount of land/livestock units, value of land (each type of land use is attributed a specific unit valuation), a specific multiplying factor for each type of land use and an accident risk multiplier (for example forestry has a high multiplying factor, whereas vegetable growing has a low multiplier). The level of contribution depends on the region of the LSV where the farm is located. On average contributions vary between €10 - 20 per hectare;
- Pension (Alterskasse): farmers are obliged to pay a fixed contribution to their farmers' pension scheme. The contribution is not related to any of the farm statistics such as its size or the annual profit. If the profit of a year has been very low, the farmer is granted a subsidy for himself, his wife and the employed members of the family as

well. The subsidy can only be obtained if the individual income doesn't exceed €15,500. The amount of subsidy declines progressively from €121 (up to an income of €8,220) to €0 as income nears the €15,500. The total contribution is determined yearly. For the year 2004 the monthly contribution is €201. The spouse of a farmer also has to pay the contribution;

- Health Insurance: contribution determined on the basis of the amount of agricultural land, which is converted into a special 'contribution value'. Land use other than agriculture, like asparagus or hop cultivation, are corrected to an estimated agricultural value. The contribution can vary from €77.40 for single entrepreneurs to €83.21 per month for married entrepreneurs without children;
- Long-term care insurance: same contribution as Health Insurance.

B.1 Tax on property

1. Object of taxation

The municipalities on immovable property levy real estate tax annually whether held as a private or business asset.

2. Valuation

Real estate tax is imposed on the fiscal value. Built-on property located within the five new federal states may be estimated at lower values if rented for dwelling purposes or used as a single-family residence.

3. Allowances and tax reliefs

For individuals, the real estate tax is only deductible for income tax purposes if the property is used in the course of a trade or business or if it constitutes a source of income, for example in the case of rental income.

Only two exemptions are possible to tax on property. Firstly, buildings that are officially recognised memorials or monuments and the associated costs are more than possible benefits. Secondly, if there is a decrease of yield caused by natural calamites (fire, draught, flooding, storm, epidemic plagues etcetera) a part of 4/5 of the degree of yield decline can be deducted from the tax due, if recognised.

4. Tax rate

The basic federal rate is 0.35% of the fiscal value of the property. The result is multiplied by a municipal coefficient, which ranges from 280% to 600% and brings the effective rate to between 0.98% and 2.1% of the fiscal value. The average rate is around 1.5% (IBFD, 2004).

B.2 Tax on wealth

There is no net wealth tax.

C. Inheritance and gift tax

1. Valuation

Tax is levied separately on each beneficiary or recipient in respect of his share in the estate or the gift. For the tax levied on gifts, the recipient and donor are jointly liable. The beneficiary/ recipient must declare each taxable acquisition within three months of knowledge of the acquisition. In some cases, the donor must also declare the acquisition. The taxable base for farm property is divided into an agricultural part and a private residence part, in case a residence is connected to the farm. In general, the taxable base is the fair market value.

The valuation of agricultural property is related to an estimated earning capacity of the land. This earning capacity is related to all agricultural assets. The valuation is shown in table A6.4.

Table A6.4 Valuation of land

Land use	Valuation (Ertragswert)
Hop	€57 per are
Asparagus	€76 per are
Other agricultural use	€0.35 for every ertragsmesszahl a)
Field vegetable production	€56 per are
Glasshouse vegetable production	€511 per are
Field ornamental plant cultivation	€184 per are
Glasshouse ornamental plant cultivation heated	€1,841 per are
Glasshouse ornamental plant cultivation not heated	€920 per are
Fruit	€20 per are
Field tree cultivation	€164 per are
Glasshouse tree cultivation	€1,329 per are
Flock of sheep	€10 per mother sheep
Christmas trees	€133 per are

a) The ertragsmesszahl is a fixed unit (per are) estimation for the valuation of real property. This value of real property is registered in the Land Valuation Act of 1964 and attributed a standard amount of ertragsmesszahlen. Agricultural land is corrected on this amount according to type of soil.
Source: Bayerisches Staatsministerium der Finanzen Presse und Öffentlichkeitsarbeit (2002).

The valuation method for the residence is based on its rental value, taking the age of the house in account. For every year the value is reduced with 0.5%, with a maximum of 25%. The height of the coefficient used to multiply the annual rental value depends on the region of the dwelling. Debts of the deceased as well as the funeral and administrative expenses are deductible.

2. Allowances and tax reliefs

In the case of German business property acquired by inheritances or gifts mortis causa, the first €225,000 are exempt; only 65% of the excess is taxable. The same applies to shares in a resident company if the deceased/donor held a direct interest of more than 25%. The following allowances are granted for inheritance and gifts (table A6.5).

Table A6.5 Allowances on inheritance and gifts

Beneficiary/recipient	Allowance (€)
Spouses	307,000
Children and step children	205,000
Other recipients in category I a)	51,200
Recipients in category II	10,300
Recipients in category III	5,200

a) for categories see C3-Tax rate
Source: IBFD (2004).

In the case of inheritance, additional allowances are available for the spouse and the children (amount depending on the age) of the deceased (IBFD, 2004).

The transfer of a business to a nominated successor or hereditary succession is not regarded as cessation of the business. The successor continues the business of the predecessor at its book value. Gratuitous transfer of an agricultural business is treated as a gift which is free from income tax if the gift provides: (1) pension payments to the predecessor, his spouse or relatives, (2) the assumption that business related debts are transferred to the successor, (3) the successor is committed to make any payments required in connection with succeeding settlements in excess of the book value of the business or (4) the commitment to transfer business assets by way of compensation for favoured relatives (EFAC, 2000).

From 2007, no gift or inheritance tax is due if the farm is continued for a period of ten years.

3. *Tax rate*

The rates of inheritance and gift tax are determined on the basis of marriage or the proximity of relationship between the deceased/donor and the beneficiary/ recipient and on the basis of the value of acquisition. The following categories can be discerned:

I. Spouses, children and stepchildren, grandchildren, great-grandchildren and, in the case of inheritance, parents and grandparents;
II. Brothers, sisters, nephews, nieces, step-parents, sons-in-law, daughters-in-law, parents-in-law, divorced spouses and in the case of gifts, parents and grandparents;
III. Other persons, including legal entities.

The corresponding rates are displayed in table A6.6.

Table A6.6 Categories of relationship to the deceased/donor

	Rate (%)		
Taxable Amount	Category I.	category II.	Category III.
Up to 52,000	7	12	17
52,000-256,000	11	17	23
256,000-512,000	15	22	29
512,000-5,113,000	19	27	35
5,113,000-12,789,000	23	32	41
12,789.00 -25,565,000	27	37	47
Over 25,565,000	30	40	50

Source: IBFD (2004).

The lower rates for each category apply to acquisitions up to a value of €52,000 while the higher rates apply to acquisitions exceeding €25,565,000. The transfer of all businesses including agricultural and forestry businesses are generally taxed on the basis of grade I not regarding the relationship between the beneficiary and the donor.

D. Other

1. Transfer tax

There is a transfer tax of 6% the acquisition of land. Some transfers are exempt:

- If the transfer value is less than 2,500 Euros;
- Land received through inheritance or gift;
- Transfer between relatives in the first line.

2. Value Added Tax (VAT)

VAT is generally levied on the turnover of taxable goods and services. The standard rate is 16%. A reduced rate of 7% applies to essential goods and services such as food and beverages. For agricultural businesses, a fixed arrangement structure applies. The fixed arrangement is based on economic statistics regarding the average VAT burden related to agricultural business (9% for agricultural goods and 5% for forestry goods (EFAC, 2000)). The VAT amounts charged to the buyers remain to the producer completely. The VAT scheme is simplified for the vast majority (more than 90%) of all farms (OECD, 2005).

3. Excise duty

Diesel for agricultural use is taxed at a lower rate (OECD, 2005). The rate is €0.2556/litre. The regular tariff is €0.47/litre.

4. Environmental taxes

There is a so-called 'Öko-Steuer' on energy (i.e. new tax on electricity and an increase in tax on mineral oils and gas), constructed as typical consumption tax.

The rate is 20.50 per MWh and electricity from green sources is excluded from taxation. For agricultural enterprises, the rate is reduced to €12.30 per MWh for the use of electricity over 25 MWh (AID, 2004). The use of the following energy is also taxed (Infodienst der Landwirtschaftsverwaltung, 2005):

- petrol: €153.39 / 1000 litres;
- diesel: €153.39 / 1000 litres;
- heating oil: €20.45 / 1000 litres;
- natural gas; €3.66 / MWh (=3.58 eurocent per m^3);
- liquid gases: €35.04 / 1000 kg.

Agricultural enterprises pay less for heating oil, natural gas and liquid gases. The rates are reduced with 40% if the taxes are above €511.

Furthermore remuneration for the glasshouse sector is granted, amounting to €40.90/1,000 litre for used heating oil, €3.00/MWh for natural gas and €38.90 /1,000 kg for liquid gas (AID, 2004). This includes compensation for other taxes than eco taxes.

5. Other

None.

E Examples

Private farm with 2 entrepreneurs

Assumptions:
- Income of the farm: €50,000;
- 2 entrepreneurs;
- 2 young children;
- 30 ha.

Profit		50,000
Personal allowance	(2*7,664)	15,328
Child allowance	(2 children * 1,824 * 2 entrepreneurs)	7,296
Agricultural allowance	(2* 670)	1,340
Deductible social security (calculation below)		7,266
Taxable amount		18,770
Taxable per entrepreneur		9,385
Income tax per entrepreneur	(5,075*24.05% + 4,310*26.34%)	2,356
Total income tax		4,712
Solidarity surcharge	(5.5% * 4,712)	259
Social security		
Accident	(30*€15)	450
Pension	(2 entrepr. * 12 months * 201)	4,824
Health	(12 * 83)	996
Long term insurance	(12 * 83)	996
Total		7,266
Maximum deductible	(3,068+1,344)*2	8,824
Total income tax and social security contributions (7,266+4,712+259)		12,237

One man business

Assumptions:
- Income of the farm: €50,000;
- 1 entrepreneur;
- 2 young children;
- 30 ha.

Profit	50,000
Personal allowance	15,329

Child allowance	(2 children * 1,824 * 2 spouses)	7,296
Agricultural allowance	(2* 670)	1,340
Deductible social security (calculation below)		7,266
Taxable amount		18,770
Income tax per entrepreneur	(10,150*24.05% + 8,619*26.34%%)	4,711
Total income tax		4,711
Solidarity surcharge	(5.5% * 4,711)	259
Social security		
Accident	(30*€15)	450
Pension	(2 entrepr. * 12 months * 201)	4,824
Health	(12 * 83)	996
Long term insurance	(12 * 83)	996
Total		7,266
Maximum deductible	(3,068+1,344)*2	8,824
Total income tax and social security contributions (7,266+4,711+259)		12,236

As you can see, the taxation is exactly the same, whether the farm is a one-man business or run as a partnership. This is because in Germany, the personal income brackets are doubled for jointly assessed spouses.

Literature

AID, *Besteuerung der Land- und Forstwirtschaft*. 2004.

Bayerisches Staatsministerium der Finanzen Presse und Öffentlichkeitsarbeit, *Steuertipps fur Land- und Forstwirte*. München, 2002.

Bayerisches Staatsministerium der Finanzen, *Steuertipps für Familien.* 2004.

BMVEL, *Statistisches Jahrbuch uber Ernahrung, Landwirtschaft und Forsten 2004*. 2004.

EFAC, *Taxation of Agriculture in Europe*. Kluwer, Deventer, 2000.

Eurostat, *Structures of the taxation systems in the European Union*. Luxembourg, 2004.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings: Germany 2003*. Luxembourg, 2005.

IBFD, *European Tax Handbook 2004*. Amsterdam, 2004.

Infodienst der Landwirtschaftsverwaltung, *Steuerliche Regelungen für die Land- und Forstwirtschaft*. 2005.

Lissitsa, A. and A. Balmann, *Efficiency and productivity of farms in post unification Germany*. Debrecen, Hungary, 2003.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security*. Working Party on Agricultural Policies and Markets, 2005.

Consulted experts

- Prof. Dr. Enno Bahrs
  Department of Agricultural Economics and Rural Development
  University of Göttingen
  Internet: www.uni-goettingen.de
- Rüdiger Parsche
  IFO
  Internet: www.ifo.de
- Manfred Schöpe
  IFO
  Internet: www.ifo.de
- Gerhard Reintzsch
  Federal Ministry of Food, Agriculture and Consumer Protection
  www.bmelv.de

Appendix 7. Hungary

In 2003, there were 161,000 agricultural farms of at least 1 ESU and over 612,000 agricultural 'farms' of less than 1 ESU in Hungary. The holdings larger than 1 ESU employed 255,000 AWUs (Annual Work Unit). The average size of these farms was about 25.3 hectare per holding. The total arable land was 4.1 million hectare. More than half of the farms were smaller than 5 ha, while 3% were larger than 100 hectare. About one third of the farms are mixed. About 0.3% of the farms are organic. The most important products, measured by their share of the value of agricultural output were cereals, pigs and poultry (Eurostat, 2004a).

Hungary's land privatisation programme included the privatisation of state farms, the restructuring of the ownership of collective farms and the compensation of expropriated owners. About 2.5 million ha of collective land and 0.2 million ha of state-owned land were privatised through auctions, where 1.5 million people received, on average, less than 2 ha each. Hungary's land privatisation programme has generated a great diversity in the legal status, size and ownership of agricultural holdings. Only 3% of the holdings are a legal person. Small farms are located with their plots around the villages. The greater the distance from the homes, the bigger the fields. In Hungary, small farms are exempt from certain taxes, so there is an incentive to register several farming operations within one family, even if the land is cultivated as a unit.

As in all other new EU countries, agriculture in Hungary faced a decline in its terms of trade since the beginning of transition. The unfavourable development in the relative prices could have been offset by the agricultural sector through an increase in efficiency. However, such attempts have often been hampered by lack of capital resulting in the use of inappropriate machinery and equipment. This restricts the efficient use of inputs such as fertilizer, pesticides, high yielding crop varieties, compound feeds and others. Since the beginning of transition, the major source of efficiency gains has therefore been a substantial reduction in the labour force (European Commission, Directorate-General for Agriculture, 2002).

With a total-tax-to-GDP of about 39% in the year 2002, Hungary's overall tax burden is the highest of all new Member States and close to the average of the EU15 (Figure A7.1). As in most of the new Member States, revenue from indirect taxes is very important. Its share accounts for above 40% of total taxes. The share of direct taxes is about 6-percentage point below the Union's average, whereas social contributions are slightly above the European average, most of them levied on employers (Eurostat, 2004b).

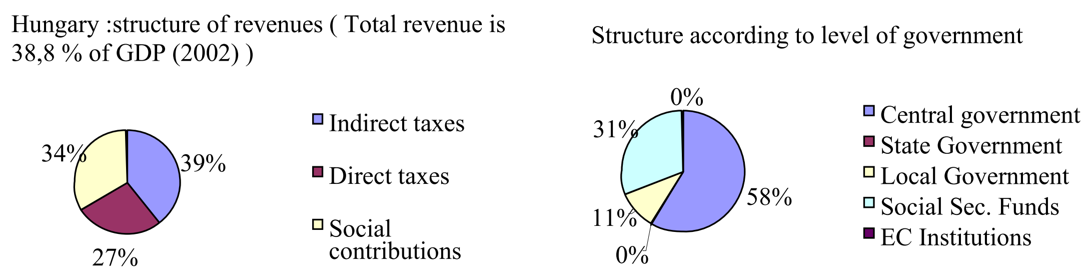


Figure A7.1 Structure of Hungarian tax revenue according to total revenue and level of government.
Source: Eurostat (2004b).

A Tax on income, profit and capital gains

1. Main Tax system

Agriculture in Hungary could be characterised as having a variety of production structures and entities regarding their size and business activities. This creates a diverse level of profitability. In terms of tax legislation, agricultural companies, cooperatives and other associations are subject to corporation tax, while private producers and individual entrepreneur farmers are liable to income tax payments (Alvincz and Guba, 2003). Only a small share of the holdings is a legal person or a partnership. However, the total acreage of these farms was about 40% of the total agricultural surface in Hungary in 2004 (AKI, 2005). Since both the personal income and the corporate tax are important in Hungary, we will study them both. Under both systems, there are special schemes for different groups of structures.

2. Method of income calculation and tax rates (including social security and other obligatory contributions)[1]

General accounting rules

The taxable base is computed from the accounting profits by adjusting them for prescribed items. Taxable profits comprise ordinary business profits (including operational profits and profits from financial transactions) and other profits. In general, all expenses directly related to the operation of a business are deductible.

Normal corporate tax

The corporate income tax rate is 16% (2006). The tax for the first €19,868[2] is 10% instead of 16%. This tax benefit is only available to taxpayers who pay their employees on averages at least one and a half times the minimum wage. The minimum wage is about €3,000 a year (2006).

[1] Due to the number of different systems, we combine the description of the systems and the rates.
[2] 1euro = 251.66 HUF.

From 1 January 2004, companies are required to pay an innovation tax at a rate of 0.2% (0.05% for small enterprises). The tax base is the same as the one calculated for local business tax purposes.
The taxes on payroll are (in 2004):
- 3% unemployment insurance;
- vocational training contribution 1.5%;
- pension fund contributions 18%;
- health care contributions 11%;
- lump sum health care levy of €13.71 per month.

Simplified entrepreneurial tax (EVA)
A simplified tax scheme is available to limited liability companies (Kft.), general and limited partnerships, cooperatives and certain other business forms, as well as individual entrepreneurs. It is applicable to farmers, but in many cases it is not an interesting option. The scheme replaces the income taxes, dividend tax and VAT and is available under certain conditions relating to among others turnover. Under the scheme, tax is levied at a flat rate of 15% on the taxpayer's turnover, plus VAT and adjusted in respect of certain items as specified by law. A taxpayer who opts for the scheme for a tax year must inform the tax authorities. A taxpayer applying the scheme is not regarded as a taxable person for VAT purposes and is thus not entitled to deduct input VAT. According to Alvincz and Guba (2003), the simplified enterprise tax system is unfeasible for agricultural producers.

Normal Personal Income tax
Individuals are subject to income tax on all items of income, unless expressly exempt. The individual income tax distinguishes the following categories of income:
- aggregate income: including income from dependent personal services, income from independent personal services (for example free lance work) and other aggregate income;
- entrepreneurial income;
- capital gains;
- income from capital;
- benefits in kind; this includes the private use of company cars;
- income from the receipt of securities, options and similar rights;
- miscellaneous income.

In general, business income is included in the aggregate income as income from independent personal services, unless it falls under the entrepreneurial income category, which is taxed separately. Individuals providing independent personal services include agricultural producers. Entrepreneurs are subject to a special entrepreneurial income tax and entrepreneurial dividend tax.

Pensions are fully exempt from income tax. Interest income is generally exempt. In the case of rental income from immovable property other than agricultural land, the taxpayer may elect to treat the income as income from independent personal services (= aggregate income). The taxpayer may, however, elect to deduct a lump sum equal to 10% of gross income instead of actual expenses (IBFD, 2004).

As a rule, income from independent personal services is calculated as the difference between gross income and deductible expenses.

Farmers do not have to include the agricultural income if the revenues from agriculture are less than €2,384 (Act CXVII of 1995 on Personal Income Tax). Many families in Hungary produce agricultural products both for their own consumption and selling on markets (often by using cooperatives). In 2003, there were 612,400 farms with an economic size of less than 1 ESU. These families benefit from this arrangement, especially since the agricultural production can be shared among several family members or other relatives, over the age of 16. This agricultural production only provides a small additional income. No health care contribution is due either, although this was not compulsory till 2007.

Small farmers with annual revenues exceeding €2,384, but below €15,894 with at least 20% costs and no other income during the tax year, may file a signed simplified declaration statement with the annual revenues indicated, stating that they had no income from small-scale agricultural production during the tax year. In the years when a small agricultural producer applies this option, depreciation of tangible assets and intangible assets and 20 per cent of the deferred losses will be considered as claimed each year (Act CXVII of 1995 on Personal Income Tax). Although no income tax is due, they still have to pay a health care contribution (expert information).

For farmers with revenues between €15,894 and €23,842 another beneficial facility exists. The first 40% of the revenues is exempt from taxation. The costs incurred are deducted from the remaining part of the revenues, leading to the taxable income. Farmers with crop production pay 15% taxes and animal breeders pay only 6%. If farmers have more than 60% costs, actually no income tax is due, which will often be the case.

Old-age pensions are not liable to tax in Hungary. Received EU subsidies are included in the income. Social security contributions are deductible for corporate income tax, but not directly for personal income tax, although a tax credit is available.

The tax rates for 2006 are shown in table A7.1.

Table A7.1 Income tax rate Hungary 2006

Income (€)	Tax rate (%)
0-6,159	18
> 6,159	36

Source: ITD Hungary (2006).

Other taxes in the personal income tax are taxes on interest income (0%). The benefits in kind are taxed at a flat rate of 44%. Rental income derived from immovable property is subject to tax at a 25% (2006) rate.

Paid dividends are taxed at 25% up to 30% (2006) share of the equity capital, thereafter, the rate is 35% (Act CXVII of 1995 on Personal Income Tax, ITD, 2006).

Entrepreneurial income tax and entrepreneurial dividend tax

In general, business income is included in the aggregate income as income from independent personal services, unless it falls under the entrepreneurial income category, which is taxed separately. In that case a rate of 16% on the entrepreneurial income is applied. Expenses also include payments made to compensate the entrepreneur for his personal work (IBFD, 2006).

After paying the entrepreneurial income tax (16%) remains the 'profit', after which the entrepreneurial tax must be paid. There are two possibilities:

- if the entrepreneur has a 36 hour per week job which pays the social security for him, he must pay 35% of this 'profit' as entrepreneurial dividend tax;
- if he has a part-time job or if he has no other job, then this profit must be reduced by the amount of the social security contribution (this must be based on at least the equivalent of the minimal wage). From the remaining sum the entrepreneur pays 25% entrepreneurial dividend tax.

Presumptive taxation (Flat rate taxation)

The small-scale agriculture producer can choose for flat rate taxation, if his revenue is not more than €15,894 in 2004 (€31,789, in 2006) (Act CXVII of 1995 on Personal Income Tax). The farmer is then taxed on gross income less an estimated deduction for expenses, which is 85% for crop production and 94% for food production. Table A7.2 shows the tax rates in 2004.

Table A7.2 Tax rates for flat rate taxation 2004

Taxable income (€)	Rate (%)
0 - 795	12.5
795 - 2,384	25
2,384 - 3,179	30
> 3,179	35

Source: IBFD 2004.

Table A7.3 shows the tax rates for 2006.

Table A7.3 Tax rates for flat rate taxation 2006

Taxable income (€)	Rate (%)
0 - 6,159	18
> 6,159	36

Source: expert information.

The FADN database provides information about whether the flat rate taxation is beneficial for small farmers or not. Since only small farmers can use this method, we only show the figures for these categories (table A7.4). Unfortunately, only data from one year are available. The assessed income based on either the 85% or 94% seems fairly similar to the actual income with a little overestimation for farms between 4 and 8 ESU. A large majority of farms in Hungary is smaller than 8 ESU, which are the categories in the FADN database with a turnover of less than the threshold.

Table A7.4 Comparison of flat rate income versus actual family farm income.

	0<4 ESU	4 - 8 ESU
Total production	8,900	16,100
Subsidies	1,300	2,800
Total revenues	10,200	18,900
assessed income: 85% costs	1,500	2,800
assessed income: 94% costs	600	1,100
Family farm income	1,000	3,100

Source: EU-FADN.

Since the other options are more favourable for the small farmers, the flat rate taxation is not widely spread (expert information).

Social security contributions

The social security contributions are generally levied on the gross employment income, income from independent personal services and benefits in kind (excluding the company car). The health insurance contribution is payable at a rate of 4%. The pension system is a three-pillar system consisting of:

- a statutory state pension, the contributions to which are levied at a rate of 8.5% (0.5% for those who also contribute to the mandatory private pension);
- a mandatory private pension, the contributions to which are levied at a rate of 8%; and
- a supplementary private pension, the contributions to which may be up to 10%;

In addition, all employees must contribute to the unemployment fund at a rate of 1%. Small farmers are not obliged to pay any social security contributions on their agricultural income, although plans exist to change this exemption.

Social security contributions can be deducted as expenses.

Local taxes

The municipalities are authorised to levy a local business tax on corporate taxpayers with their legal seat or permanent establishment within their jurisdiction. The law determines maximum amounts/percents of the local tax. This tax is generally levied on the turnover (including also 50% of any interest received), less the acquisition costs of goods sold, subcontractor fees and material costs. The maximum rate is 2%. The municipalities may grant exemptions to small businesses. The local business tax payable, increased by 100% (2006), is deductible for corporate income tax purposes. This tax type is introduced by 2800 local self-governments out of a total of 3,250. Currently, farmers running small-scale businesses with net sales of up to €2,384 are exempted from communal tax on business, and from other business taxes (expert information).

3. Averaging of income and loss transfer allowed?

From 1 January 2004, losses may be carried forward at the taxpayer's election indefinitely. Losses incurred after the third year of the business activity may, however, be carried forward only with the express permission of the tax authorities if, in the year in question, the taxpayer has not generated turnover equal to at least 50% of incurred expenses, or if it incurred losses in the preceding two years. Permission is given only if the failure to generate the required turnover is caused by an unavoidable external reason or the taxpayer has taken the necessary measures to avoid or reduce the loss. The loss carried over is deductible up to the amount of the taxable income. Losses must be deducted in the order they were incurred. Capital losses incurred on the sale of business assets are deductible in the same manner as ordinary losses. Tax losses cannot be carried back to prior periods.

4. Depreciation and investment incentives

Depreciation of fixed assets is compulsory. The person entitled to the depreciation allowances is generally the owner of the assets. Tangible and intangible assets may be depreciated according to a linear rate from the date on which they are put into use.

Land is generally not depreciable. However, land may be depreciated to the fair market value if it has permanently fallen below the acquisition cost. Accounting depreciation is based on the acquisition or production cost of the asset reduced by the expected residual value at the end of the useful lifetime of the assets. For tax purposes, the depreciable base is generally the total acquisition or production cost. Intangible assets may be depreciated according to the general accounting rules.

Machinery and equipment may generally be depreciated at a rate of 14.5%. Some assets may be depreciated at a rate of 33%, for example machinery used for environmental protection. Alternatively, 50% depreciation may be applied to tangible assets newly acquired or produced in 2003 or 2004 and normally subject to depreciation at 14.5 or 33%. For buildings, structures and plants used in a business, the depreciation rate varies between 2 and 15%. Special rates apply to agricultural structures (3-15%). Production rights can be depreciated. However, no depreciation rates are specified, which implies that the rates can be determined by the entrepreneur.

Investments in equipment for a hygienic production of meat with a present value of at least €397,362 may qualify for tax credit allowances. An additional investment credit is available for small and medium-sized enterprises. Taxpayers who take a loan from a financial institution for the acquisition or production of tangible assets may deduct 40% of the interest paid on such a loan from their tax, up to a maximum deduction of €23,842. However, this tax credit is not available to farmers. In addition, small and medium-sized enterprises may generally deduct investment expenses incurred for putting business assets into use, up to €119,208 million per year.

A development tax credit[1] of 35 to 50% of the investment value is granted depending on the region of the investment. The tax credit can be carried forward for ten years. However, the tax credit may not exceed 80% of the tax liability in any of the tax years.

5. Capital gains tax

In general, capital gains on the disposal of property (whether movable or immovable) are taxable as income for the personal income tax. Capital gains on the withdrawal of business property from a company are taxed separately at a 20% rate (IBFD, 2004).

---

[1] Under a tax credit system, everyone is entitled to reduce their taxes by the same amount, while with a system of allowances, individuals at higher marginal rates derive greater absolute benefits than those at lower rates.

6. *Allowances and tax reliefs*

In Hungary there are a number of tax credits, which are deducted from the tax calculated on the aggregate income. Table A7.4 describes the employment credit, which exist of a tax credit and an additional tax credit. It is only applicable to wages and the height of the credit depends on the annual income.

Table A7.4 Employment tax credit system in 2006

Annual income	Tax credit	Max. tax credit per year	Additional tax credit	Comment
0 - 3,974	18% of the salary	429	112	
3,974 - 5,960	Fixed amount	429	112	Additional tax credit is reduced with 5% of income above 3974
5,960 - 6,205	Tax credit is reduced with 18% of the income above 5,960.	429	112	Additional tax credit is reduced with 5% of income above 3,974.
6,205 - 8,345		429	0	Tax credit is reduced with 18%of the income above 5,364.

Source: (Act CXVII of 1995 on Personal Income Tax).

Besides the employment credits in 2006, there are additional tax credits (table A7.5).

Table A7.5 Additional tax credits

Credit	Limit of Income	Part of €397 limit a)	Amount	Limit of credit
Social security agreement	-	-	25% of payment	-
Pension fund extra payments	-	-	30% of payment	-
University tuition	€23,842	Yes	30% of tuition	€238
Education and computer cost	€13,510	Yes	30% of education fee 50% of computer purchase	€238
Repayment of loan for housing	€13,510 - €15,894	-	30-40% of loan instalments (interest + repayments)	€477
Small agricultural producers b)	€23,842	Yes	Sum of tax of farmers	€397
Intellectual activities	€23,842	Yes	25% of income	€199
Family	€31,789	-	>3 children: per child €40 per month	-
Donation for public benefit organisations	€23,842	Yes	30% (35% for long-term donations)	€199
Donation for seeded public benefit organisations.	€23,842	Yes	30% (35% for long-term donations)	€397
Life /pension insurance	€23,842	Yes	20% (+10% of extraordinary payments)	€397
Underemployment			75% of public cost (ticket for casual labourers)	

a) These credits may total €397 at most. The credits expire if the income is above the limit; b) Agricultural primary farmers who have opted for detailed cost accounting or the 10% costs ratio can apply this allowance. The allowance must not exceed the tax on the annual income from this activity in case he has opted for the 10% cost ratio and must not exceed the amount of bookkeeping fee in case he has opted for detailed cost accounting.

Source: ITD Hungary (2006).

The limitation of the €397 limit of credits was introduced from 2005. In 2004 the amount of the payable tax was the maximum of the limit of credit.

7. Tax rates (including social security and other obligatory contributions)
See section A2.

B.1 Tax on property

1. Object of taxation
Immovable property situated in Hungary may be subject to two annual municipal real estate taxes: (1) building tax and (2) land tax. The owner is the taxable person.

2. Valuation
The taxation of buildings and land is based on the number of square meters or the market value of the building (depending upon the decision of the local government) (Hôgye, 2000).

3. Allowances and tax reliefs
The taxes are deductible for corporate income tax purposes. Buildings up to 100 m^2 traditionally used for agricultural production have been exempted from the tax.

4. Tax rate
The building tax is either a maximum of €3.58 per year per square meter or a maximum of 3% per year of the market value of the building. The land tax is either a maximum of €0.79 per year per square meter or a maximum of 3% per year of the market value of the land.

B.2 Tax on wealth

1. Object of taxation
There is no net worth tax.

C. Inheritance and gift tax

1. Valuation
Inheritance and gift tax are applied to all kinds of property situated in Hungary. The taxable base is generally the net value of the inheritance or gift.

2. Allowances and tax reliefs
In case of the inheritance of agricultural land or assets, only 50% of the inheritance tax is due. The inheritor only has to pay 25% of the inheritance if he is a family farmer. During the discussion of the legacy, an heir may transfer (part of) his/her own inheritance share to other heirs. The transferring party pays no duty on items transferred free of charge. The party acquiring the transferred inheritance share pays duty based on the duty rate corresponding to the relationship, as if the items had been inherited directly from the decedent

(governmental portal, 2003). In the case of a gift, only 50% of the gift tax on land has to be paid.

3. *Tax rate*

The rates depend on the proximity of the deceased to the beneficiary. There are three categories: I) children/spouse/parents; II) other close relative; and III) others.

Tables A7.6 and A7.7 show the tax rates for inheritance and gift tax successively.

Table A7.6 Tax rate inheritance tax

	Tax rate a) (%)		
Taxable income	Category I	Category II	Category III
Up to €71,525	11/2.5	15/6	21/8
€71,525 - €139,076	15/6	21/8	30/12
€139,076	21/11	30/15	40/21

a) The lower rates apply to received dwellings. Dwellings are taxed separately from other property.
Source: IBFD (2004).

Table A7.7 Tax rate gift tax

	Tax rate a) (%)		
Taxable income	Category I	Category II	Category III
Up to €71,525	11/5	15/8	21/10
€71,525 - €139,076	18/8	21/10	30/21
€139,076	21/12	30/16	40/30

a) The lower rates apply to received dwellings. Dwellings are taxed separately from other property.
Source: IBFD (2004).

D. *Other*

1. *Transfer tax*

In general, real estate transfers are subject to a 10% transfer tax levied on the transfer price or the market value of the property. The transfer tax base also included the VAT. The rate is 2% for apartments and houses up to €15,849 and 6% on anything in excess of that sum. The transfer of agricultural land that is obtained as part of land concentration is exempt under certain conditions.

2. *Value Added Tax (VAT)*

VAT applies to all natural persons and legal entities, which supply goods or services on a regular basis for profit. The standard rate is 20% (2006). A reduced rate of 15% applies to certain basic foodstuffs. A 5% rate applies to textbooks and specified medicines, medical materials and supplies. The zero rate applies to exports and the supply and letting of land.

In general, businesses with an annual turnover below €15,849 may opt to be exempt from accounting for VAT. In case of family farmers and other farmers that apply the flat rate scheme, the limit is €23,842 (Szabó 2005). Businesses applying the simplified entrepreneurial tax scheme are not regarded as taxable persons for VAT purposes. The most important exemptions (without deduction for input VAT) include transactions relating to financial services, health care services, lease of dwellings and education. In the case of procurement of the agricultural production, the buyer has to pay a compensation price of 12% of the selling price of the product of crop farming and 7% of the animal products. The taxpayer can reclaim this amount.

3. Excise duty

Companies selling or importing products listed in the Excise Tax Act, such as mineral oil, alcoholic beverages and tobacco, are subject to an excise tax. The agricultural users get back 80% of the gas oil excise duty (expert information). The maximum amount to which this exemption applies is for:

- arable land: 95 litres/ha/year;
- gardens, orchards, vineyards: 200 litres/ha/year;
- grassland: 12 litres/ha/year;
- fishpond: 55 litres/ha/year;
- reforest: 90 litres/ha/year;
- cattle sector: 85 litres/head/year.

The rates on energy products and electricity are:

- leaded petrol: €440 per 1000 litres;
- unleaded petrol: €408-460 per 1000 litres;
- propellant and diesel: €335 per 1000 litres.

4. Environmental taxes

Hungary introduced several new taxes in 2004, including an energy tax. The tax should be calculated based on the amount of electricity (€0.74/MW) and natural gas (€0.22/GJ) used in a period (KPMG, 2004).

5. Other

-

E. Examples

<u>*Holding*</u>

Assumptions:

- income of the farm: €50,000;
- 2 entrepreneurs;
- 2 young children.

The 2 entrepreneurs both receive an income of €10,000. The income of €50,000 is before the payment of the salary to the entrepreneurs and the social contributions. We assume that the rest of the profit is paid to the entrepreneurs.

Profit before paid salaries	50,000
Paid salaries	20,000

Social contributions	7,029
Profit of the holding	22,971

Social contributions paid by holding:

- Pension contribution 18%	3,600
- Social security contribution 11%	2,200
- Employer's contribution 3%	600
- Health contribution €13.70/person/month (2* €13.7*12)	329
- Vocational training contribution 1.5%	300

Total social contributions paid by holding:	*7,029*
Taxable profit	22,971
Corporate income tax 10% * 19,868	1,987
+ 16% * (22,971-19,868)	497
Local taxes (1%)[1]	2,500

(local taxes are paid on revenues, we assume a profit of 20% of the revenues, which implies revenues of 250,000).

Total taxation of corporate profit	4,983

Social contributions paid by entrepreneurs:

- Pension contribution 8.5%	1,700
- Social security contribution 4%	800
- employee's contribution 1%	200
Total social contributions paid by entrepreneurs:	2,700

Personal income tax and social contributions on paid salary (€10,000 per entrepreneur)

6,159*18%	1,109
(10,000-6,159)* 36%	1,381
Total income tax	2,491
Total for 2 entrepreneurs	4,983

We assume that all remaining profit (50,000- 20,000 - 7,029 -4,983) is paid to the entrepreneurs and that it is less than 30% of the equity, so that the tax rate is 25%,

Dividend tax 25% * 17,988	4,497

Total amount of tax and social security contributions is €24.192 (7,029+4,983+2,700+4,983+4,497),

Family Business (private farmer)

The taxation of the family farms is rather complicated due to the existence of a range of facilities to reduce or avoid taxation. However, those facilities are only available to small

[1] The local taxes are at most 2%. The average percentage is not known, so the 1% will only give an impression.

farmers and their applicability depends on the level of the revenues. It would go too far to illustrate all the possible options with an example.

Literature

Act CXVII of 1995 on Personal Income Tax (Hungary).

AKI, 2005, *Hungarian food and agricultural statistics 2004*.

Alvincz, J. and M. Guba, *Income tax legislation of individual agricultural producers*. 2003.

European Commission (Directorate-General for Agriculture), *Agricultural Situation in the candidate countries; country report on Hungary*. 2002.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings: Hungary 2003*. Luxembourg, 2004a.

Eurostat, *Structures of the taxation systems in the European Union*. Luxembourg, 2004b.

Governmental Portal (www.hungary.hu), *Inheritance duty*. 2003.

Hôgye, M., *Local And Regional Tax Administration In Transition Countries*. Budapest, 2000.

IBFD, *European Tax Handbook 2004*. Amsterdam, 2004.

ITD Hungary, *Taxation*. 2006.

KPMG, *Investment in Hungary*. 2004.

Szabó, A, *National SME policies, programmes and enterprise development policies in Hungary*. 2005.

Consulted expert

- Marianna Balogh
  Agricultural Economics Research Institute (AKI)
  Internet: www.akii.hu
- Ildiko Nagy

Appendix 8. Poland

The soils of average to poor agricultural quality dominate in Poland. The country is characterised by great biological diversity and a huge variety of natural habitats and landscapes. Farmland productivity is much lower than that in the EU-15 due to the soil quality and the climate as well as a much lower usage of agricultural inputs (mineral fertilizers, plant protection substances). A significant number of farmers, in particular owners of small farms, are involved in agricultural production applying traditional methods, mainly to ensure food supplies for their families. Animal production is mostly characterized by low intensity, which is not harmful to the environment. Poland is a major producer in Europe and worldwide of many agricultural, horticultural and animal products. It ranks second in Europe for the production of berry fruits, mainly raspberries and currants. For many years, Polish agriculture has been one of the biggest producers of onions, cabbage, cauliflowers, strawberries and apples. As rye and potato type soils dominate, Poland is a leading producer of rye and potatoes: the second largest producer of rye in the world and in Europe and the 6th largest producer of potatoes in the world and second in Europe. With regard to meat production, in particular pork, as well as milk and hen's eggs, Poland ranks among the 15 biggest producers in Europe and the world. Due to the low profitability of agricultural production and problems selling agricultural commodities produced on farms, there was a growing tendency to leave agricultural land fallow and idle. At present, farmland is utilised by numerous entities varying with regard to ownership, farm size as well as type and scale of production. A characteristic feature of Polish agriculture, comprising a total of 1,853,000 agricultural holdings in 2003, is wide differentiation of farm size from one hectare to several thousand ha. The latter can be found in the private and public sectors alike. The largest agricultural holdings were established on the former state-owned farms. The problem of farm fragmentation occurs solely in the sector of private agricultural holdings (1,850,500 farms). The average size of a private farm is 7.4 ha. Although farms of over 10 ha constitute only 19%, they use over 50% of utilised agricultural area. Enlargement of the existing farms is a permanent process supported by preferential credits. The total area used for agriculture is 16.2 million ha. The number of organic farms has constantly been rising; in 2003 the number increased by 15.6% on the previous year. Nevertheless, the number of organic farms in Poland remains small. In 2003, only 2,286 farms were organic (Ministry of Agriculture and Rural Development, 2004).

Poland is in line with the EU-15 average concerning the ratio of total taxes to GDP with a value of 39.1% in 2002, which is the second highest among the new Member States. Indirect taxes are also important whilst direct taxes were the lowest in all EU-25 in 2002 with a percentage of 18.7% of total taxes (Figure A8.1). The main reason for the low level of direct taxes is a substantial shift from personal income tax to social contributions occurred in 1999 (Eurostat, 2004).

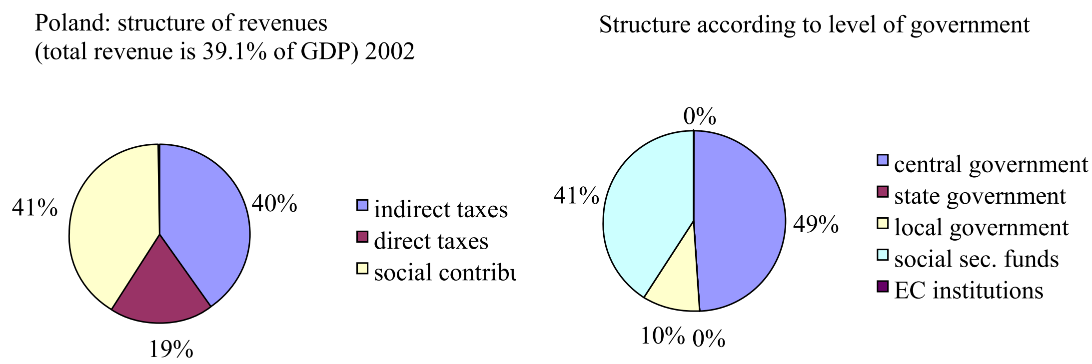


Figure A8.1 Structure of Polish tax revenue according to total revenue and level of government.
Source: Eurostat (2004).

A. *Tax on income, profit and capital gains*

1. *Main Tax system*

Almost 95% of agricultural land is used by the private sector, of which 87% by private agricultural holdings (family farms). Public sector, owning 5% of agricultural land, comprises State Treasury farms and state legal persons, self-governments (gminas) and agricultural holdings of mixed ownership with a dominating state-owned stake (Ministry of agriculture and rural development, 2005). Partnerships are not taxable entities and, as such, partners are taxed individually on their share of the profits. The corporate and personal income tax are not levied on income from revenue raised from among others agricultural activity (except special branches of agricultural production) and forestry (Ministry of Finance, 2004).

2. *Method of income calculation*

The law lists the following categories of income:
- income from dependent services, including employment and pension income;
- income from independent services;
- income from business;
- income from particular agricultural services;
- income from immovable property;
- income from investments and property rights;
- income from the sale of immovable property, property rights and movables;
- other income.

Income tax is only applicable to specific agricultural products. On the list of specific agricultural products are: greenhouse production, poultry production, mushroom production, bee keeping, large-scale pig farming, fur animals, silkworm production, etcetera. Revenue from other types of agricultural production is not subject to income tax (either personal or corporate). The proportion of farmers producing these specific agricultural products is between 2% and 5%. The precise number is hard to estimate (OECD, 2005).

Income taxes levied on these specific forms of agricultural production may be assessed in two ways: 1) based on average production norms, and 2) based on cost accounts. The choice is not completely free and depends on the amount of revenues and net income (expert information). If tax payments are based on industry norms, the calculation is based on a unit charge multiplied by the area or numbers of units of production. In this case the farmer is not obliged to keep financial records. If the farmer keeps accounts, the calculation of taxable income is based on normal cost accountancy, profit and loss calculations. Tax accounts are prepared on a monthly basis according to farm accounts, and payments are also submitted monthly to the tax office with a reconciliation completed at the end of the tax year in April (OECD, 2005).

In cases where the farmer does not keep account books, income from special branches of agricultural production is assessed with the use of income estimation standards for a given area of cultivation or a unit of animal production; in the case of:

- cultivation in greenhouses and heated plastic cloches: per square meter of total area calculated on the basis of inner length of walls;
- cultivation of mushrooms and mushroom spawn: per one square meter of the area covered by such cultivation;
- poultry hatcheries: per each nestling from the brood;
- laboratory animals: per each sold animal;
- breeding and raising of animals: per each sold animal;
- breeding aquarium fish: per one cubic decimetre of aquarium capacity.

If the volume of special branches of agricultural production exceeds the values determined in Schedule no. 2 of the Personal Income Tax act, the incomes obtained in the given tax year from the whole area of cultivation or from all production units shall be taxable.

The income (loss) from special branches of agricultural production is calculated as the difference between the revenue from the running of these branches and costs, increased by the value of growth of the number of animals in the herd at the end of the given tax year as compared to the number of animals at the beginning of the year, reduced by the value of the reduction of the number of animals in the herd during the given tax year.

Income from social distributions and sums received in respect of property and personal insurance are exempt. Expenses incurred for the purpose of obtaining taxable income are deductible, unless otherwise provided by law. Non-deductible expenses include:

- expenses incurred in purchasing land or perpetual usufruct rights to land, except for periodical payments for perpetual usufruct;
- costs incurred in purchasing and producing fixed assets and intangibles;
- motor vehicle depreciation allowances and insurance premiums in respect of that part of the value of the vehicle, which exceeds the equivalent of 20,000 euros; [1]
- interest on additional capital contributions, on dividends and other corporate distributions;

[1] 1 euro = 4.53 PLN

- allowances and contributions to various funds unless the taxpayer is required to contribute to such funds.

As a general rule, spouses are taxed separately on their income. However, spouses married in community of property and who are resident tax payers may elect to file a joint tax return, provided that they were married during the entire tax year. If they so elect, tax is assessed in the name of both spouses and is equal to twice the amount of tax computed with respect to half of the spouses' aggregate income.

Direct subsidies received under the EU Common Agricultural Policy are tax-exempt. Production rights can not be depreciated.

3. Averaging of income and loss transfer allowed?

Losses may be carried forward for five years; up to 50% of the loss may be set off in each year. Loss carry-back is not allowed.

4. Depreciation and investment incentives

The depreciation of assets is compulsory and cannot be postponed. As a general rule, the straight-line method applies, but the declining-balance method may be used for certain categories of fixed assets. Assets that may not be depreciated or amortized for income tax purpose include: land and perpetual usufruct rights to land and certain buildings and structures. The depreciation rates for certain types of assets are as follows:

- buildings and structures: 1.5-4.5%;
- general purpose machines and equipment: 10%;
- computers: 30%;
- vehicles: 4.5-20%;
- tools and other equipment: 20%.

Accelerated depreciation in respect of certain new fixed assets is allowed. The assets may be depreciated at a rate of 30% in the first year of activity and under the general rules in the following years. The assets qualifying for accelerated depreciation are specified by the law and include general-purpose machinery and equipment, as well as machinery and equipment used in agriculture.

Depreciation can be increased in special occasions (within bracket the ratio applicable):

- for buildings and constructions, which are in deteriorated conditions (up to 120%) or in bad conditions (up to 140%);
- for machines, means of transport and devices which are used more intensely (up to 140%);
- for machines and devices which are subject to fast technical progress (up to 200%);
- under the Law on Special Economic Zones (SEZ), special zones have been established. Enterprises that were granted a permit to operate in the SEZs before 1 January 2001 continue to enjoy incentives under that scheme. However, this can only be used by the industrial production.

5. Capital gains tax

Capital gains arising in the course of a business are treated as ordinary business income. This does not apply to the gains derived from the activity subject to agricultural tax. An exemption exists for the sale of real property belonging to a farm. The exemption reflects a general tendency, whose aim is to exclude farmers from taxation by personal income tax. The exemption does not apply to revenue earned from the sale of land which has lost its agricultural or forestry character subsequent to the sale.

Capital gains from the sale of shares and other securities are taxed separately at a flat rate of 19%. Income derived from the sale of a dwelling, building or land not used for business activities is exempt if the money is used within two years to acquire another dwelling, building or land. Real estate held for over five years is exempt from income tax. Capital gains from the sale of real estate or movables are otherwise taxed at a 10% flat rate. Capital losses on fixed business assets are deductible from ordinary business income.

No other special allowances exist in case of farm quitting.

6. Allowances and tax reliefs

Benefits paid out of the social fund in the event of an accident, natural disaster, long-term illness or death, are exempt up to €503. Contributions made by employers and employees to the obligatory pension plans (pillars I and II, see next section) are deductible. Pension benefits are taxable upon receipt. Contributions paid to voluntary pension plans (pillar III) are not deductible, but the benefits derived from these plans are not taxable. A standard deduction from income from dependent services, other than pensions, is allowed in the amount of €271, which is consequently not applicable to agricultural income.

Interest on a mortgage loan not exceeding €41,722 is deductible if taken from 1 January 2003 to build or purchase a dwelling located in Poland. Donations for purposes relating to religion and donations for public utility organizations are deductible up to €77 per year.

7. Tax rates (including social security and other obligatory contributions)

Table A8.1 shows the tax rates for single persons.

Table A8.1 Tax rate for single persons

Annual taxable income	Marginal rate (%)
Up to 8,173	19 (-€117)
8,173 - 16,346	30
>16,346	40

Source: IBFD (2004).

Polish farmers have their own social security fund for farmers, known as 'KRUS'. It was originally created to provide retirement payments. The contributions paid by farmers provide a small proportion of the total payments they receive, the majority (over 90%) of which comes directly from the state budget. All residents of Poland with land ownership of greater than 1 ha of agricultural or forestry land may register for KRUS rather than the normal Social Security System (ZUS). Contributions into the farmer's scheme are lower than under the ZUS scheme, although farmers receive similar benefits with regard to health care, education and social welfare. Some benefits are, however, lower in the KRUS Scheme (Pensions). As of 31 December 2004, a total of 1,540,158 persons were registered under the Farmer Scheme and making payments (OECD 2005).

Polish farmers pay their social security contribution once per quarter. A Council of the Farmers' Social Security fixes the amount of the contribution every quarter. The actual amounts of KRUS contributions are €40 for disability and pension and disability insurance and €16 for accidents, sickness and maternal insurance per person and per quarter (expert information).

B.1 Tax on property

1. Object of taxation

Real estate tax is an annual local tax. The taxable base for all buildings is the floor area of the building. For land, it is the area. For fixed installations, the depreciation value is taken into account. Agricultural land is exempt from real estate tax, but subject to agricultural tax.

The agricultural tax applies to land used for crop growing on farms exceeding one hectare.

2. Valuation

The base to assess the value of fixed installations for real estate tax is generally the value used as a base for depreciation.

The agricultural tax is based on a 'conventional hectare' (or 'conversion hectare') defined as the actual number of ha multiplied by a coefficient related to the fertility of the land, the location of the farm, and the type of agriculture. The fertility factor is based on the information in the technical cadastre and the zone allocation is determined by the Ministry of Finance. Four zones depending on economic and production (climatic) conditions have been established, and there are two types of land (arable land and meadows and pastures) and ten usage classes as well as 14 classes of soils. Most of the arable land is of average quality (Agricultural Property Agency, 2006).

3. Allowances and tax reliefs

Farmers may be exempted or released from agricultural taxes in a number of ways. For example, a farmer may be released from this tax on land for five years if he has increased the size of the agricultural holding to 100 ha. This also applies if the land is bought or leased from the Agricultural Land Agency. Arable land of lower quality is also exempt, implying that about 1/3 of the arable land is exempt (Agricultural Property Agency, 2006).

4. Tax rate

The tax rates for the real estate tax, which are fixed by the municipal councils, may not exceed:

- €0.139 per m^2 for land used in businesses;
- €0.068 per m^2 other land;
- €0.1115 per m^2 for dwellings;

- €3,845 per m^2 for buildings in businesses;
- €1,241 per m^2 for other buildings;
- 2% of the value of fixed installations.

The tax rate for the agricultural tax is set as the value of 2.5 quintals (a measure of quantity) of rye per conventional[1] hectare (that is, indexed to the average market price per quintal of rye paid on wholesale markets for the first three quarters of the preceding year), but there are various reliefs (for example, for farm improvements and military service) that lower this rate by up to 75%.

The agricultural tax rates were in 2002 for arable land (Kwiecińska-Zdrenka, not dated):

- average price for the rye in first three quarters of 2001 €8.21;
- 2.5 * €8.21 ->€20.52 per hectare of arable land.

There are various figures about how much agricultural tax is actually paid. Based on the FADN data of 2003, the average amount is only €332[2] for an average farm of 36 ha, which implies an average property tax of €9.21 per hectare. This amount is lower than the €20.52 due to discounts for region, soil quality and other reliefs. The OECD (2001) mentions a total amount of agricultural tax paid of 169 million euros in 1999, which leads to an average tax amount of about €8.73 per hectare. The average tax rate calculated as a percentage of the agricultural income is 3.5% (this does not include the social security contributions).

B.2 Tax on wealth

Poland has no tax on wealth.

C. Inheritance and gift tax

1. Valuation

The tax is levied on the net market value of all property received by the beneficiary/recipient. More favorable valuation rules apply to apartments and dwelling houses.

2. Allowances and tax reliefs

Taxpayers are classified into the following three categories:

- category 1: spouses, children, sons and daughters-in-law, parents, brothers and sisters;
- category 2: nieces and nephews and spouses of brothers and sisters;
- category 3: others.

[1] Quality-adjusted ha are calculated on the basis of the data on size, type and class of arable land stated in the land register and the tax region (there are four regions differing with economics and climate). Land under farm building is also taken into account when quality-adjusted ha are calculated. For the purposes of tax law agricultural farm must have a size of at least 1 ha or 1 quality adjusted hectare.

[2] Farm taxes and other dues (not including VAT and the personal taxes of the holder) and taxes and other charges on land and buildings (variable SE390 of FADN). Note: this also includes other local taxes.

The following items are at least exempt from inheritance and gift taxes:

- inheritances or gifts under €5,318 (category I), €4,010 (category II) or €2,705 (category III);
- inherited furniture, clothing;
- inherited collections of ancient art, monuments, etcetera;
- farms, excluding residential buildings, buildings for intensive livestock farming, equipment for special cultivations such as glasshouses, the rights to contributions in agricultural production cooperatives or farmers' associations' cooperatives. However, if the descendant or spouse continues the farm for at least five years, the buildings used for intensive livestock farming and equipment for special cultivations are exempt from gift and inheritance tax.

The transfer of property (land and buildings, including greenhouses, cooling systems and other installations) title, whether by gift or through inheritance, is free of tax. Buildings, which are also used for agricultural production and are located on holdings less than one hectare, are also exempted in the case of inheritance by a close family member. The transfer of the farm dwelling is however liable to normal property inheritance taxation, unless the person who inherits is not the owner of another residential property and declares that he or she will use this dwelling for a minimum period of five years.

3. Tax rate

Table A8.2 shows the tax rates for inheritance and gift tax successively.

Table A8.2 Tax rate inheritance tax

	Tax rate (%)		
Excess over tax free amount	Category I	Category II	Category III
0-5,672	3	7	12
5,672 - 11,344	5	9	16
>11,344	7	12	20

Source: IBFD (2004).

D. Other

1. Transfer tax

The sale of land in Poland is subject to civil law activities tax at 2% of its market value. If the right to the freehold of an agricultural holding (including land, buildings and dwelling) is transferred within the provisions of the social insurance programme for farmers, then the transfer is exempted from property transfer taxes. This procedure is common when the farmer retires and hands control of the agricultural holding to a child or close relative (OECD, 2005).

2. Value Added Tax (VAT)

Value added tax is levied at each stage of the production and distribution process. The input tax on purchases is deductible from the output tax. Important exemptions include services related to agriculture and forestry. The standard rate is 22%. A reduced rate of 7%

applies to machinery for the agriculture and forestry sector. The reduced rate of 3% applies to milk and dairy products, raw meat, poultry, fish and some of their products.

Special Provisions have been made for the farming community with regard to VAT. Very few farmers have registered their farming activities for VAT, although everyone resident in Poland is issued with a personal VAT identification number. To be VAT registered for business involves registering the farm as a business in a variety of formats including partnerships or limited liability companies. In the absence of VAT, registration, a provision has been made for agricultural suppliers. The buyers of their agricultural products can issue VAT on the purchases on behalf of the farmer, and an amount equal to 5% of the sales may be recovered in this way (OECD, 2005).

3. Excise duty

Excise duty is levied on mineral oils, tobacco and alcoholic products. No exemptions exist for agriculture.

The rates on energy products are (EU, 2004):

- leaded petrol: €369.72 per 1000 litres;
- unleaded petrol: €320 per 1000 litres;
- propellant and diesel: €222-250 per 1000 litres.

4. Environmental taxes

An excise duty is levied on electricity of €0.0044 per kWh (KPMG, 2006).

5. Other

None

Literature

Agricultural Accountancy Department, *The results obtained by individual agricultural holdings conducting accountancy for the year 2003*. 2004.

Agricultural Property Agency, *Lease and sale of agricultural property*. 2006.

EU, *Excise duty tables*. 2004.

Eurostat, *Structures of the taxation systems in the European Union*. Luxembourg, 2004.

IBFD, *European Tax Handbook 2004*. Amsterdam, 2004.

KPMG, *KPMG forum*. 2006.

Kwiecińska-Zdrenka, M., *Finding Farmers Country Surveys: Poland*. not dated.

Ministry of agriculture and rural development (Poland), *Agriculture and food economy in Poland*. 2005.

Ministry of agriculture and rural development (Poland), *Agriculture and food economy in Poland*, 2004.

Ministry of finance (Poland), *Tax Administration and Tax System in Poland*. 2004.

OECD, *Fiscal Design Across Levels of Government, Year 2000 Surveys, Country Report: Poland*. 2001.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security*. Working Party on Agricultural Policies and Markets, 2005.

Consulted experts

- Adrian Maczura and Paweł Rutowicz
  Rödl and Partner Wrocław
  Internet: www.roedl.com
- René Segeren
  Poland agribusiness experts (Polagricon)
  Internet: www.polagricon.nl

Appendix 9. Spain

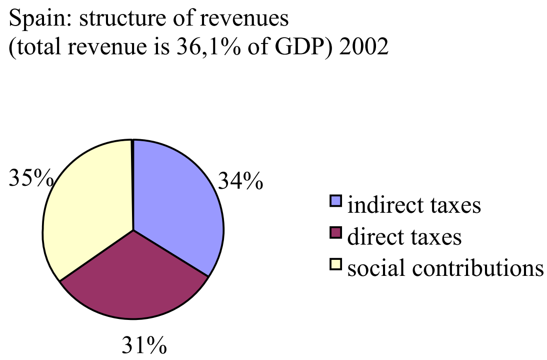
In 2003 about 978,500 agricultural holdings had an economic size of at least 1 ESU (European Size Unit), representing a 10% decline compared to 2000. These holdings employed 946,100 AWUs (annual work units). They made use of 22.7 million ha of agricultural area, averaging 23.2 hectare per holding. Amongst these agricultural holdings, 65% used less than one AWU, while 11% used 2 or more AWUs. About 49% of the holdings used less than 5 ha, while 5% used 100 ha or more. Most holdings (87%) were specialized. The main products are: olives 19%, fruits and citrus fruits 17%, cereals, oil seed and protein crops 13%, vineyards 8%, various cattle farming 8%, various permanent crops combined 6%, horticulture 5% (of which 47% under glass), sheep, goats and other grazing livestock 5%, field cropping 4% and pigs and poultry 2%. About 1% practised organic farming (Eurostat, 2005).

Compared with other Western European countries, the proportion of land devoted to agricultural purposes is low. The primary forms of property holding in Spain have been large estates (*latifundios*) and tiny land plots (*minifundios*). Minifundios were particularly numerous in the north and the northwest. Latifundios were mainly concentrated in the south. Crop areas are farmed in two highly diverse manners. Areas relying on non-irrigated cultivation (*secano*), which made up the largest share of the entire crop area, depend solely on rainfall as a source of water. They included the humid regions of the north and the northwest, as well as the vast dry zones that had not been irrigated. Although only a small share of Spain's cultivated land was irrigated, it was estimated to be the source of a large share of the gross value of crop production (see www.country-studies.com).

With a tax to GDP ratio of 35.1%, Spain has the second lowest tax burden in the EU-15. The shares of indirect taxes, direct taxes and social contributions in the total tax burden are not substantially different (figure A9.1), the amount of direct taxes, indirect taxes and to a lesser extent social contributions are all below the Union's average.

Spain's indirect taxes are amongst the lowest in the EU. This can partly be attributed to the standard VAT rate, which is one of the lowest in the Union and to the fact that Spain applies two reduced rates. Furthermore excise duties and taxes on production are low by EU standards and environmental taxes are one of the lowest.

Low taxation is particularly visible in direct taxes. Spain has made important reforms in the personal and corporate income taxes. The corporate tax reform was aimed at increasing tax neutrality between different sources of income and at reducing compliance costs. The personal tax reform saw a reduction in the amount of tax brackets to five and a reduction in rates as well as a replacement of different kinds of tax relief with personal and family tax allowances (Eurostat, 2004).



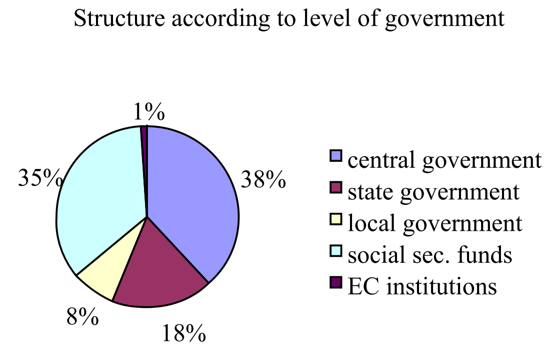


Figure A9.1 Structure of Spanish tax revenue according to total revenue and level of government
Source: Eurostat (2004).

A. *Tax on income, profit and capital gains*

1. *Main tax system*

In Spain the most important business form is the unincorporated business. In 2003, 96% of the farms were one-man businesses (www.ine.es). The personal income tax is consequently the main tax system for the agricultural sector.

2. *Method of income calculation*

Taxable income is classified into five categories according to the source or origin, namely: Employment income:

- investment income (i.e. income from movable and immovable property);
- business income (amongst which agricultural income);
- capital gains;
- imputed income (including the share of the benefit or loss from an agricultural civil society).

For calculation purposes, the taxpayer's income from various categories is divided into the *special taxable base* (gains and losses from disposable assets) and the *ordinary taxable base* (the positive less negative amounts of income under the various categories). The ordinary taxable base is reduced by applicable deductions and allowances (see A6). The resulting *ordinary assessable base* is taxed at progressive rates (IBFD, 2004).

Three methods are available for the calculation of agricultural income:

- direct income calculation (book-keeping), which means income less expenses according to accounting books;
- simplified direct income calculation (simplified book-keeping), which also means income less expenses with simpler accounting books;
- fixed index numbers for the calculation of the profit (estimated standards, using indices, modules and forfaits).

Agricultural taxation is mostly on the basis of estimated, rather than on the actual incomes found by accounting (OECD, 2005).

The *direct normal system* is obligatory to farms with an annual turnover of more than €600,000. This system is also voluntarily applicable to farmers otherwise assessed under the simplified system. Income is determined by deducting costs made to obtain taxable income from the income. Income is generally made up of the following elements:

- sales: products or animals and labour for third parties. VAT is not included in the income of farmers that apply the regular VAT system. If farmers make use of the specific agricultural VAT scheme (called *Régimen Especial de Agricultura, Ganadería y Pesca del IVA* or in short REAGP) the received VAT is included in the income;
- subsidies: all forms of subsidy, independent of their nature are included in the income;
- restitutions; received from insurance companies for damages to production or to parts of the enterprise;
- withdrawals of products, free transfer of products or sold below market prices: all are valued on the basis of their real market value and included in the income at that value;
- improvements made on the farms' fixed assets: the related labour costs are considered as expenses of the business.

Expenses are only deductible on condition that expenses are related to the acquisition of income for the business. Secondly, the expense must be accountable through a receipt and lastly its payment should be in cash. The most common expenses include:

- acquisition of goods: no discrepancy is made between goods intended for resale or for use as farm inputs;
- labour, deliveries or external services: this also includes the temporary costs incurred in the form of renting or leasing rights and goods for the objective of acquiring income for the business. Furthermore, this includes insurance premiums paid for the enterprise, like fire insurance or hail insurance, as well as bills paid for utility services (gas, phone, water or electricity) and subscriptions to third parties for access to services related to the agricultural enterprise like consultancy, veterinarians or fiscal advice and contributions to farmers' associations (not included in the objective assessment system);
- expenses for personnel: including not only salaries but also additional employer contributions to which employees are entitled: social security payments, restitutions granted to fired workers, pension payments etcetera;
- financial expenses: including mainly interest on loans to finance the farming activity and commissions paid for achieving certain financial operations;
- obligatory communitarian levies;
- depreciation;
- certain provisions: only applicable to cover future costs and expenses when there is near certain prospective they will be made;
- non-State imposed taxes and levies; mainly corresponding to the real-estate tax which is levied by local authorities on property applied to develop the farming activity.

The following expenses are not deductible from farm income under any circumstances:

- unaccounted-for expenses;
- donations or gifts;
- bills and fines;
- contributions to mutual insurance social security organizations not integrated into the agricultural social security scheme;
- payments to spouse or minor children of the tax-paying farmer, when there is no working relation between them in tax terms, these expenses are not considered as costs for the paying party and also not as income for the receiving party;
- donations to societies for regional industrial development.

The *direct simplified system* can be applied by farms with an annual turnover below €600,000 and not applying the direct normal system or the objective assessment method. Renouncement of the simplified method will result in assessment under the normal system for a period of three years and will be extended yearly thereafter without notice unless otherwise requested. Income is determined by subtracting expenses from the income. Simplified accounting is applied for:

- depreciation: rate is determined by a Government approved linear scheme;
- provisions and difficultly accountable expenses: these are estimated as 5% of the net income of the agricultural holding.

Objective assessment can only be applied by farmers under the following prerequisites:

- with agricultural activity acknowledged as such by the Government. These practices are activities which are included in the simplified VAT scheme;
- when turnover of all economic activity does not exceed €450,000, of which agricultural activity does not make up more than €300,000;
- the total of purchases of goods and services does not exceed €300,000 annually, excluding purchases of assets;
- the farmer does not declare the income of any of his activities under the direct normal or simplified scheme. Also the farmer must not have renounced objective assessment, which is applicable for at least three years.

Farm income is calculated by adding the income of all the different (agricultural) economic activities undertaken by the farmer. The income of each separate activity is determined in the consecutive order of the following calculation:

- totalling the total volume of sales, including subsidies and restitutions and multiply that by the corresponding profit index (*rendimiento neto previo*). The profit indices differ per category of products and range from 23% for to 56% for agricultural production. For the trade of agricultural products, the rates are somewhat lower;
- deducting (an extra) 35% of the costs made on the use of agricultural diesel (*rendimento neto previo reducido*);
- deducting depreciation costs of material and immaterial assets and (an extra) 15% of the costs of fertilizers and plastics (*rendimiento neto minorado*);

- multiplying this total by a correcting index (determined in a ministerial decree) in the case that an economic activity takes place under certain circumstances like utilizing third party production capital, utilizing personnel, cultivating on leased land, acquisition of feed for the keeping of livestock for third parties, organic farming and forestry under certain technical production schemes (*rendimiento neto de modulos*); The correction index regarding the amount of costs of personnel is given in table A9.1.

Table A9.1 Correction index for labour costs

Share of labour costs	Correction index
> 10%	0.90
> 20%	0.85
> 30%	0.80
> 40%	0.75

Source: Parsche (2001).

If land is rented, a correction index of 0.9 is applicable for that share that is produced on rented land. If more than half of the feed for cattle is acquired from third parties, an index of 0.75 is applicable, except for intensive farming, then the index is 0.95 (ORDEN EHA/3718/2005, de 28 de noviembre 2005).

- deducting extraordinary costs if the agricultural activity is affected by a catastrophe (reducción por gastos extrordinarios);
- young farmers or payroll farmers can deduct 25% from the total of step 4 during the first 5 tax years after their installation (reducción para jovenes agricultures);
- the calculated income can be reduced by 40% of the income that is received irregularly (in a period of over one year). Additionally, subsidies on investment in tangible assets, compensation for the termination of the business and compensation for the economic rights with an indefinite duration are irregular yields.

Based on some average figures, an indication is given about how the income based on the objective assessment compares to the real income. We base this analysis on average figures (2001-2004) from the FADN database. As we only have average figures and not all detailed information, this only gives an indication of the average farm. The indices range from 0.23 to 0.56 and these limits are shown in table A9.2. The average family farm income in Spain is €21,490 in the analysed period. The average assessed income seems fairly favourable for the farmers in Spain compared to the actual income.

The only administrative obligations that farmers have are a registry of all assets for determining depreciation and a registry of all sales and income for determining turnover (Alonso and Casanellas, 2003).

The EU subsidies are taxed under all three systems. However, if a subsidy is received for leaving agriculture, only 60% of the subsidy is included in the taxable income. Under the direct normal and direct simplified system, the subsidies are not taxed under special conditions that are related to stopping farming or cattle diseases. Under the objective assessment, the subsidies are included in the total sales. However, total revenues are multiplied by a corresponding profit index. Consequently, the EU subsidies are not completely included in the income.

Table A9.2 Calculation of assessed income

	Minimum index (0.23)	Maximum index (0.56)
Average revenues (including subsidies).	44,911	44,911
Indices	0.23	0.56
	10,329	25,150
35% costs diesel (no information available).	-	-
Deprecation	2,088	2,088
15% costs fertilizers	281	281
	7,961	22,782
Correction for costs of personnel (on average >10%): 0.9	7,165	20,503

Source: EU-FADN, calculation LEI.

3. *Averaging of income and loss transfer allowed?*

In case of a negative ordinary assessable base, the loss may be carried forward for four years to be set off against positive ordinary assessable bases. Loss carry-back is not allowed (IBFD, 2004).

Regardless of the method used, if the income has been generated during a period of more than one year, only 60% is taxable. This applies to income obtained in an irregular time span. This may include subsidies on capital for acquiring non-depreciable fixed assets and reimbursements and support obtained on cessation of the agricultural practice as well as for the reimbursement for the substitution of production rights (Alonso and Casanellas, 2003).

4. *Depreciation and tax incentives*

Depreciation is allowed in respect of all tangible fixed assets (except land) and intangible fixed assets on the basis of their normal useful life. Depreciation may be calculated in accordance with the straight-line method, the declining balance method (excluding buildings) or sum-of-the-years'-digit method[1]. Depreciation applies from the date on which the underlying asset enters into effective service and it must be calculated on each separate asset and not on groups of assets unless these are attached to specialized complex installations. Rates applied may vary between a margin which is set by the government. Rates can vary from a lower limit of 1.47% (min.) to 3% (max.) for industrial buildings and warehouses to an upper limit of 7.14% (min.) to 16% (max.) for automobiles vans and trucks. Second-hand assets may be depreciated at twice the rate of similar new assets. Under the declining balance method the annual depreciation rate is increased by 50% (if the useful life is less than five years), 100% (if the useful life is less than eight years) or 150% (if the useful life is eight years or more) (IBFD, 2004).

Production rights are only valued if they are purchased. When production rights are sold, the profit is taxable. But if the profit of selling rights is invested in any kind of business, this profit is free of taxes (Van der Veen et al., 2002). Production rights can be depreciated at a rate of at most 10%.

[1] To calculate depreciation charges using the sum of the year's digits method, take the expected life of an asset (in years) count back to one and add the figures together. Example: 10 years useful life = 10 + 9 + 8 + 7 + 6 +5 + 4 + 3 + 2 + 1 Sum of the years = 55. In the first year, the asset would be depreciated 10/55 in value the first year, 9/55 the second year, 8/55 the third year, and so on.

A number of investment credits and deductions are available. The sum of the investment credits is limited to 35% of the tax liability of the year. Any unused credit may be carried forward for ten years, subject to the same limitation every year. The investment credits differ between the methods of income calculation. Under the objective assessment, 10% of the investment on internet, electronic commerce, information technologies and communication processes is deductible. For the other methods tax credits are available for among others research and development (10-50%), export activities (25%) environmental investments (10%). In some cases, up to 50% of the tax liability is deductible.

5. Capital gains tax

Capital gains from assets held in possession for one year or more are labelled as long-term capital gains. These are taxed separately from other income at a flat rate of 15% (9.06% from state and 5.94% for the autonomous regions). Short-term gains (<one year in possession) are included in the ordinary taxable base (IBFD, 2004).

Capital gains can be derived from tangible and intangible assets susceptible to economic valorization and transfer between producers (read: quota). There is no special scheme for agriculture. Capital gains and losses are linked to the taxpayer's capital and its value. Capital gains are legally defined as variations in the value of the taxpayer's capital, which becomes apparent when its composition is altered. These two elements form the variables of the equation that determine whether gains/losses will become apparent and consequently taken up for taxation. In some cases it is possible for farmer to tax capital gains as regular income (expert information).

Short-term capital losses may only be set off against short-term capital gains of the current year. Any remaining loss may only be set off against 10% of the net income from other sources (excluding long-term capital gains). Any excess can be carried forward for four years to be set off against the positive balance of short-term capital gains and losses or against 10% of the net income from other sources (excluding long-term capital gains).

Long-term capital losses may only be set off against long-term capital gains. Any excess may be carried forward for four years to be used against any positive balance of long-term capital gains and losses. In both cases loss carry-back is not allowed (IBFD, 2004).

6. Allowances and tax reliefs

The following allowances are applicable for agricultural farmers:

- the personal allowance is €3,400 for each taxpayer. For taxpayers legally separated or living separately, it is €5,550;
- the family allowance depends on the number of dependants, their age and income and is €1,400 for the first child under the age of 25 years living at home and whose annual income doesn't exceed €8,000; €1,500 for the second child, €2,200 for the third and €2,300 for any additional child;
- additionally, €1,200 for each child younger than three years;
- €800 for each dependant ascendant over the age of 65 whose annual income does not exceed €8,000;
- the employment allowance, which varies, depending on the net employment income, between €2,400 and €3,500. It is only available for people with salary, not for entrepreneurs (table A9.1).

Table A9.1 Employment allowance

Income (€)	Allowance
< 8,200	3,500
8,200 - 13,000	3,500- 22.91% * (income -/- 8,200)
> 13,000	2,400

Source: www.spainaccountants.com.

7. Tax rates (including social security and other obligatory contributions)

The taxpayer's ordinary assessable base is taxed for income year 2004 in accordance with table A9.2.

Table A9.2 Progressive income tax rates

Taxable income (€)	Rate (%)
Up to 4,000	15
4,000 - 13,800	24
13,800 - 25,800	28
25,800 - 45,000	37
Over 45,000	45

Source: IBFD (2004).

Self-employed workers and workers employed by another person are included within the Social Security Special Agricultural Regime (REASS). From 1 January 2006, contributions from self-employed are:

- the maximum contribution basis is €2,898 per month;
- the minimum contribution basis is €786 per month;
- the contribution rate for 2006 is 19.30%.

The self-employed may choose between the maximum and minimum base, which will affect many of the eventual benefits of the REASS. Co-owners of farms included in the Special Agricultural Scheme from 1 January 2006, age 40 or under and the spouse whereof, also a co-owner of the farm, is affiliated in this Scheme, get a 30% reduction applied to the payment for compulsory common contingencies, for three years, from 1 April, 2006 or from the date when the obligation to make contributions becomes effective (www.seg-social.es). The compulsory social security contributions are deductible for individual income tax purposes (IBFD, 2004).

B.1 Tax on property (IBFD, 2004)

1. Object of taxation

Real-estate tax is levied on an annual basis by the municipalities on the possession of immovable property. It is a deductible expense for corporate income tax purposes. Real-estate tax paid is deductible from rental income for individual income tax purposes.

2. Valuation

The taxable base is the cadastral value. The value is adjusted every eight years with reference to the market value of the property, including the value of land and buildings. According to Parsche et al., (2001) the land register value is to seize 50% of the actual value.

3. Allowances and tax reliefs

In years of drought or climatologic catastrophe, payment by agricultural holdings is suspended.

4. Tax rate

The general tax rates are 0.4% for urban property and 0.3% for rural property, but higher rates may apply. This is a fairly unimportant tax (expert information).

B.2 Tax on wealth (IBFD, 2004)

1. Object of taxation

Net wealth tax is levied on behalf of the 17 autonomous regions. Resident individuals are subject to net wealth tax. Spouses must file individual returns. If they are married under a community property scheme, the assets are attributed to the spouses on a 50/50 basis unless another method of appointment can be sustained. If they are married under a separate property scheme, the assets are attributed to the appropriate owner.

2. Valuation

The basis of the valuation is real market value.

3. Allowances and tax reliefs

Net wealth tax is levied on the worldwide assets of resident individuals. Exempt assets include:

- the value of a taxpayer's primary residence up to €150,253;
- entitlement to a private pension plan;
- industrial or intellectual property rights;
- assets pertaining to the business or professional activities performed by the taxpayer, whose business earnings constitute his main source of income;
- shares and other participation rights where certain requirements are met.

The taxable base for wealth of a taxpayer is arrived at by aggregating all his assets and deducting all his duly substantiated liabilities and the standard deduction. The deduction may vary from one region to another. If a region fails to set its own deductible amount, a standard deduction of €108,182 applies. Net wealth tax is not deductible for income tax purposes.

The aggregate burden of income tax and net wealth tax due by a resident taxpayer may not exceed 60% of his total taxable income for income tax purposes. If it exceeds that amount, the taxpayer, may reduce his net wealth tax liability by the excess amount to a maximum tax of 20% of the net wealth tax liability, as originally calculated (before the calculation of the 60% rule).

4. Tax rate

If the autonomous region fails to set its own rates the following standard table applies (table A9.3).

Table A9.3 Standard rates on wealth tax

Taxable amount (€)	Rate on excess (%)
Up to 167,129	0.2
167,129 - 334,252	0.3
334,252 - 668,499	0.5
668,499 - 1,336,999	0.9
1,336,999- 2,673,999	1.3
2,673,999 - 5,347,998	1.7
5,347,998 - 10,695,996	2.1
Up to 10,695,996	2.5

Source: IBFD (2004).

C. Inheritance and gift tax

1. Valuation

Transferred assets are valued at their fair market value and debts are deductible. The value of the deceased's household furnishes and personal belongings is assumed to be 3% of the net value of the estate apportionable to the recipients.

2. Allowances and tax reliefs

For inter vivos gifts, the assessable base is coincides with the taxable base. For inheritances and bequests, it is the amount resulting from reducing each recipient's taxable base by fixed allowances. The following allowances may be deducted:

- category I recipient (deceased's direct and legally adopted descendants under the age of 21 years): a maximum allowance of €47,859 for each descendant under the age of 13 years; €15,957 for descendants under the age of 21 years plus €3,991 for each year under 21;
- category II recipient (deceased's direct and legally adopted descendants of 21 years or older, spouse and direct and adoptive ascendants): €15,957;
- category III recipient (deceased's siblings, uncles, aunts, nephews, nieces ascendants and descendants by marriage until the fourth degree): €7,993;
- category IV recipient (other people): no deduction.

Where the recipient is the spouse or child of the deceased, an additional deduction applies in respect of a family business, holdings qualifying for an exemption from net wealth tax and the permanent residence of the deceased. This deduction is 95% of the value of such property, but there is a limit of €122,606 for each recipient with respect to the deceased's residence.

People who are (partially) disabled have an extra allowance. Payments from life insurances are exempt for close relatives up to an amount of €9,195.

3. Tax rate

The 17 regions are authorized to set their own tax rates within certain limits. If a region fails to set its own rates, the progressive rates according to the following standard table apply.

Table A9.4 Progressive gift and inheritance tax rates

Taxable amount (€)	Rate on excess (%)
Up to 7,993	7.65
7,993 - 15,980	8.50
15,980 - 23,968	9.35
23,968 - 31,955	10.20
31,955 - 39,943	11.05
39,943 - 47,930	11.90
47,930 - 55,918	12.75
55,918 - 63,905	13.60
63,905 - 71,893	14.45
71,893 - 79,880	15.30
79,880 - 119,757	16.15
119,757 - 159,634	18.70
159,634 - 239,389	21.25
239,389 - 398,777	25.50
398,777 - 797,555	29.75
Over 797,555	34.00

Source: IBFD 2004.

The final tax liability of the beneficiary is the amount resulting from applying fixed surcharges to the basic tax due by reference to the recipient's net wealth tax before receipt of the inheritance or gift in question and his relationship with the deceased or donor and is applied on the basic inheritance and gift tax as indicated below. The categories are the same as indicated before:

Table A9.5 Surcharge applicable to the calculated basic inheritance and gift tax

Recipient's pre-existing net wealth (€)	I and II (%)	III (%)	IV (%)
Up to 402,678	0	58.82	100
402,678 - 2,007,380	5.00	66.76	110
2,007,380 - 4,020,771	10.00	74.71	120
Over 4,020,771	20.00	90.59	140

Source: IBFD (2004).

D. Other

1. Transfer tax

The beneficiary shall pay the tax at a rate of 6% or 7% (depending on the region) of the purchasing price, in case of purchase of Estate; or 4%, in case of purchase of movable or personal property. In some cases, the transfer of property to relatives is (partially) exempt to guarantee a viable economic farm or to guarantee the family succession of the agricultural activities.

2. Value Added Tax (VAT)

Normal VAT is levied on most business and professional transactions carried out within Spain and on all goods imported into Spain. The standard VAT rate is 16%. The reduced rate of 7% applies to food, animals, some goods used in agricultural activities, water, most ornamental plants, medicines, first transfer of houses and many transport services. A super-reduced rate of 4% applies to various basic necessities. There is a special system for farmers (REAGP). This can only be applied if the turnover of the agricultural activities is less than €300,000 and the total turnover is less than €450,000. Under this special system, the agricultural goods they sell are taxable at a rate of 7.5% for cattle products and 9% for agricultural products. For their supplies they pay the standard rates (expert information). Farmers can also opt to use the general VAT system. It can be profitable to change to the general VAT system before investments are made (OECD, 2005).

3. Excise duty

An excise duty is levied on diesel oil, where a difference is made between agricultural and consumer purpose. The agricultural diesel is 70% exempt from excise duty. The original rate is €293 per 1000 litres (European Commission, 2004), which implies that farmers actually pay 8.8 Eurocents per litre diesel.

4. Environmental taxes

Environmental taxes are levied on energy and water consumption. No taxes are levied on pesticides and fertilizers (OECD, 2005). In Spain, there are no general laws regulating the energy taxation. This absence has made it possible for the autonomous regions to take action on this type of taxation. Since the beginning of the 1980s, almost all the autonomous regions have introduced various measures with some environmental objective. Most of the environmental taxation at the regional level is related to the emissions of liquid waste. Tax on energy products is not widely spread (Gago, 2006).

5. Other

-

E. Examples

<u>*Private farm*</u>

Assumptions:
Income of the farm: €50,000;
2 entrepreneurs;
2 young children (one under age 2).

Profit	50,000
Income per entrepreneur	25,000

Family allowance	3,400	
Child allowance	(1,400 + 1,500+ 1,200)/2 (per entrepreneur)	2,050
Social security contributions	(29.8%*25,000)	7,450
Taxable income	(25,000-3,400-2,050-7,450)	12,400
Income tax	(15% * 4,000 + 24% * 8,100)	2,544
Total per entrepreneur	(7,450 + 2,544)	9,994
Total for the farm		19,988

Partnership
Assumptions:
Income of the farm: €50,000;
1 entrepreneurs;
2 young children (one under age 2).

Profit		50,000
Family allowance	(2*3,400)	6,800
Child allowance	(1,400 + 1,500+ 1,200)	4,100
Social security contributions	(29.8%*32,784 (max base 2,732 per month))	9,770
Taxable income	(50,000-6,800-4,100-9,770)	29,330
Income tax (15% * 4,000 + 24% * 9,800 + 28% * 12,000 + 37% * 3,530)		7,618
Total for the farm	(9,770+7,618)	17,388

The total amount of income tax and social security contributions is lower in the case of a one-man business. This is due to the fact that the social security contributions are limited per entrepreneur. In case of a one-man business, social security contributions for one person are paid.

Literature

Alonso and Casanellas, *La Fiscalidad de la pequeña Empresa agropecuaria*. Paper presented at the Jornada Tématica sobre la Fiscalidad en el Sector agrario, 5 March 2003 in Madrid.

European Commission, *Excise duty tables, part II Energy products and electricity*. 2004.

Eurostat, *Structures of the taxation Systems in the European Union*. Luxembourg, 2004.

Eurostat *Statistics in Focus, Structure of Agricultural holdings: Spain 2003*. Luxembourg, 2005.

Gago, A., X. Labandeira, F. Picos and M. Rodríguez, *Environmental taxes in Spain: a missed opportunity*. 2006.

IBFD, *European Tax Handbook 2004*. Amsterdam, 2004.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security*. 2005.

ORDEN EHA/3718/2005, de 28 de noviembre 2005.

Parsche, R., P. Haug, A. Marcelo, C. Woon Nam and B. Reichl, *Internationaler Vergleich der Systeme zur Besteuerung der Land- und Forstwirtschaft*. 2001.

Veen, H.B. van der, K.H.M. van Bommel and G.S. Venema, *Family Farm Transfer in Europe, A focus on the Financial and Fiscal Facilities in Six European Countries*. 2002.

www.country-studies.com
www.ine.es
www.seg-scoial.es

Consulted expert
- José Rodriguez
  IVC-consultants
  Internet: www.ivcconsultants.com

Appendix 10. United Kingdom

The topography and climate of the UK splits the country into two main areas for agriculture: the north and west are more usually used for livestock farming, with arable farming more often found in the south and east. As in many European countries, the trend is for fewer, larger farms. There are two principal forms of occupation in the UK: owner-occupied, or tenanted (EFAC, 2000).

In 2003, in the United Kingdom, 181,800 agricultural holdings had an economic size of at least one ESU, which means a 0.4% increase compared to 2000. These holdings employed 308,000 and used almost 15.5 million ha of agricultural area, averaging 85.2 ha per holding (compared to 84.6 ha in 2000). Amongst these 181,800 agricultural holdings, 27% used less than one AWU, while 57% used 2 or more and 14% used less than 5 ha, while 22% used more than 100 ha. About 9% of the holdings were mixed. The most important sectors are various grazing livestock including sheep 29%, cattle fattening and rearing 21%. About 1.4% practised organic farming. Only 3% of the farms are legal persons (Eurostat, 2004a).

The present tax structure in the UK is mainly characterized by a relatively high weight of direct taxes, which largely reflects a rather heavy reliance on personal taxes. However, the share of social contributions is one of the lowest in the EU. Furthermore, the UK also stands out with the highest share of central government's tax revenues in total tax receipts of the EU15 (figure A10.1).

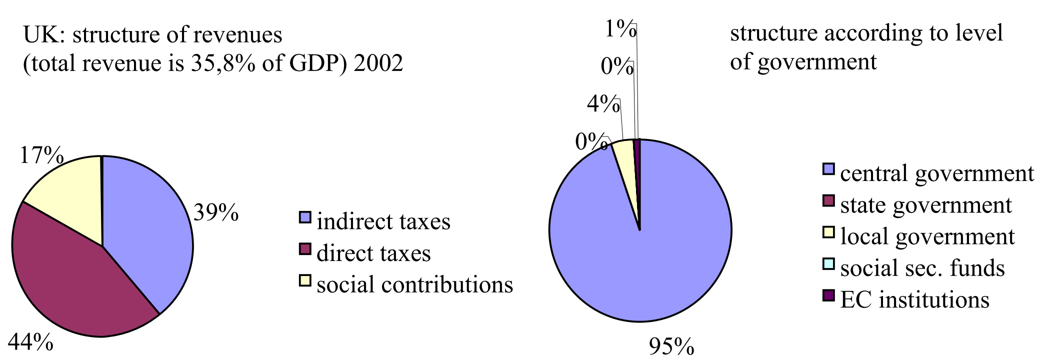


Figure A10.1 Structure of tax revenues and the structure according to the level of government
Source: Eurostat (2004b)

The UK's implicit tax rate on labour is the lowest in the EU. The overall tax burden on capital, on the other hand, is above EU average. Both taxes on corporations and on real estate (i.e. national domestic rates on business properties and council tax paid by owner/occupiers and tenants on the value of their dwelling) contribute to the relatively high tax burden on capital (Eurostat, 2004b).

A. Tax on income, profit and capital gains

1. Main tax system

The private partnership is the most common farming business structure (EFAC, 2000). Only about 4% of agricultural holdings are in the form of legal persons and group holdings (Eurostat, 2004a). The UK recognizes two forms of partnership. The most common one is regulated by the statute under the Partnership Act 1890, but there is also the limited liability partnership, which is regulated under the Limited Partnership Act 1907.

The main tax system in the UK is individual income taxation. The income tax year assessment runs from 6 April to the following 5 April. Wages and salaries are assessed on the actual income earned in the year of assessment, but the assessment of income from a trade such as farming in normally based on the profit in the accounting period ending in the tax year.

2. Method of income calculation

The agricultural industry is taxed in the same way as other industries. There are no special income calculating methods. Legally unincorporated businesses are not required to produce a full set of accounts, but only required to prepare a statement of profit or loss for the Inland Revenue. Income tax is assessed according to a scheduler system, based on the nature of its source, for example:

A. rents receivable from UK real estate;
B. repealed;
C. interest on government stocks taxed at source;
D. income from trades and professions; interest and other income classed into various cases:
   - case I: Profits of trade;
   - case II: Profits of a profession or a vocation;
   - case III: Interest received gross;
   - case IV: Income from foreign securities;
   - case V: Income from foreign possessions;
   - case VI: Other annual profits;
E. employment income;
F. dividends received from resident companies.

The two most important schedules are schedule E, which covers income from employment, and schedule D, which includes income from trade, profession, business and other annual profits. Income from farming and market gardening are chargeable under case I (profits of a trade) in schedule D in the same way as income from other trade (NILF, 2002). Schedules affect the expenses one can deduct from one's income and also when tax has to be paid. They also distinguish investment income from earned income. Schedule A is also important, as it taxes landlords' incomes from letting agricultural estates. Some special rules apply to the agricultural assessments here.

When determining the taxable profits of a business such as a farm, only revenue expenses may be deducted and capital expenses are prohibited as a deduction. Within a partnership, the profit is divided between the partners (EFAC, 2000). An individual's taxable income is calculated by first ascertaining his total income (i.e. the total of schedules A to F). Total income comprises income from all sources, after allowable deductions from each source of income have been made, less certain other specified deductions. Personal deductions are then subtracted from this amount to arrive at the final figure of taxable income (IBFD, 2004). Examples of expenses that cannot be deducted from profits are: depreciation, losses on the sale of capital items such as plant and machinery, payments relating to capital items and the proportion of expenses relating to personal use. An adjustment will also be made to include the market value of any produce used by the farmer and his family. Tax legislation provides for specific allowances on capital expenditure known as 'capital allowances' (see section A4) to be claimed against the taxable profit. Capital allowances are always calculated on the net costs to the farmer, i.e. after any grants or subsidies have been deducted (these mainly come through the Investment in Agricultural Holdings Programme under the England Rural Development Programme).

Subsidies under the Arable Area Payments Scheme (AAPS) for the growing of crops are treated, for all tax purposes, as being sales based and are accounted for as an addition to the sales value of a particular crop. Set-aside payments directly related to the AAPS are added to the area payment. Voluntary set-aside is accounted for as a receipt at the end of a compliance period. Where the entirety of a crop has not been sold at an accounting date, the entitlement to subsidy is apportioned between the two periods, with credit for crop sales in the next financial period being deferred. Livestock subsidy payments are accounted for either at the end of the retention period for the animal or alternatively on receipt. Whichever method is chosen, it has to be applied consistently.

Stocktaking forms an integral part of the accounting process and is undertaken to match revenue expenditure against sales income. Stocks of crops and animals which have not reached their intended sales stage are carried forward at cost, so that the cost incurred prior to the accounting date can be set against the sales revenue when this is in a subsequent accounting period. Where the net realized value of an animal, which has reached a recognized marketing point is less than its cost, then the net realizable value is substituted so that stocks are carried forward under the standard United Kingdom accounting convention of 'the lower of cost and net resalable value'. Where the farmer's costs are not precise enough to identify the costs which are carried forward (forage crops consumed by animals are particularly difficult to cost) then a 'deemed' cost may be used. This is expressed as a percentage of the market value of an animal or harvested crop at the date of the accounts. The deemed cost for cattle is 60% of open market value and 75% for pigs and sheep.

A herd would normally form part of the farm's trading stock, but a farmer may make a herd basis election in respect of one or more production herds, which has the effect of excluding herd from stock and treating it as a capital asset. Production herds for this purpose are herds kept mainly for their produce such as for milk, wool, eggs and calves. The herd for this purpose only includes mature animals, i.e. those that have produced their first young. The costs of purchase of the herd and additions or improvements to the quality of the herd are not allowed as trading expenses. When an animal is replaced, the proceeds are included in the trading account, but the cost of a replacement animal, of a similar quality, is allowed against profit. Consequently, if the herd is maintained at the same numbers and quality, the value of the herd for tax purposes will remain unchanged.

Immature animals are still included in livestock on the trading account and stock valuation. If they produce young which are added to the herd, they are 'sold' into it at the cost to the farmer who has reared the animal up to maturity. If the numbers in the herd are substantially reduced (by at least 20%), the profit or loss on the animals, which are disposed of and not replaced, is tax-free. If fewer animals are sold, the sale proceeds are included in the trading account and the original cost of the animal (or the one it replaced) is deducted to arrive at the profit to be charged to tax. An election once made in the herd cannot be withdrawn (EFAC, 2000).

Interest paid by an individual is allowable as a general deduction from income if it is:

- loan interest, whether annual interest or not, but excluding interest on a bank overdraft; or
- a qualifying purpose, i.e. the acquisition of an interest in a partnership or the acquisition of machinery and plant for use in a partnership or employment (IBFD, 2004).

Forestry is entirely outside the scope of taxation (although subject to some capital gains and inheritance taxes). There is a system of grants available, which encourages the necessary planting, but grants and proceeds of sales following felling are not taxable. Closing down the trade can also involve exceptional income tax because unrealized profits, which may exist in the form of stocks, will be cashed. For accounting purposes, these are normally valued at the cost of production and often well below market values. Losses on the cessation of trade can be set back against profits of the previous three years (EFAC, 2000). Social security contributions are not deductible for income tax.

3. Averaging of income and loss transfer allowed?

Trade losses may be set off against other income of the current or preceding year or be carried forward indefinitely in the same and continuing trade; they may also be set off against capital gains of the current year only. Losses are only allowed for five consecutive years, after which no more loss relief is allowed until at least one year after a trade profit is recorded. This is to prevent hobby farmers getting loss relief.

Legislation recognizes that farm profits tend to fluctuate from year to year more than those of other businesses and that this could result in unfair tax consequences. There is therefore a special option available to average out the profits of two consecutive years for both farmers and market gardeners. The option can be used where the taxable profits before the deduction of capital allowances (see A4) for the lower of the two years, do not exceed 70% of the profits of the higher year. If the lower profits are 70% to 75% of the higher however, limited spreading is allowed. Where a loss is made in any year, for the purpose of the spreading rules, the profits are treated as nil and the loss is relieved in the usual ways. It is also possible to vary profit share between partners to use the lower rates of tax (EFAC, 2000). If a loss occurs in the year in which farming commences and in the three following tax years in which trade is carried out, that loss can be set back against the farmer's total income for the three preceding tax years, taking the earliest year first (Van der Veen et al., 2002).

4. Depreciation and investment incentives

In general, no deductions for depreciation are allowed, since they represent capital expenditure. Instead capital allowances are given under separate legislation. Capital allowance can be claimed on plant and machinery and agricultural buildings. Most expenditure incurred on plant and machinery is lumped together in a single 'pool' of expenditure. There is a single capital allowance calculation for the pool no matter how many items are included. The Writing Down Allowance is 50% for small businesses and 40% for medium-sized businesses in the first year. The remaining cost of the pool is written off over the following years at 25% on the reducing balance each year. The pool is consequently reduced and the remainder is known as the written down value. The base for next year's allowance is this value and at the end of the year one can claim up to 40% / 50% of the purchases that have been made during the year plus up to 25% of the pool's remaining value (EFAC, 2000). Special rules exist for short (less than five years) and long-life (more than 25 years) plants and machinery. Short-life assets can be kept separate from the main pool. If the item has not been sold or disposed of by the end of the five year period, the balance in the separate pool for that item is added to the 'main' pool and then handled in the normal way. For long-life assets a separate pool exists. The writing down allowance for long-life assets is 6% (also in the first year). The capital allowance for agricultural buildings is 4%, which is calculated on the original costs. The Agricultural Buildings Allowances include construction of agricultural buildings, fences, water and electricity installations, drainage and sewage works, shelter belts of trees and glass houses for market gardening.

For taxation purposes, it is accepted that some of the farmhouse expenses are necessarily incurred in connection with the farming business. The allowable expenses are arrived at by calculating the proportion of the farmhouse used in connection with the farming business based on specific usage of accommodation available within the house. The Agricultural Building Allowance, possible on a farmhouse, will normally be based on only one-third (maximum) of the total cost to take account of the personal benefit.

Expenditure on land improvements, for example drainage, is only deductible if there is a substantial element of improvement or the land was acquired at a depressed price due to its swampy condition. The expenditure, net of any grant, will be allowed as a revenue deduction rather than an item qualifying for capital allowances (EFAC, 2000).

Balancing allowances and charges are calculated in cases of cessation of the farm or the disposal of assets. A balancing allowance is an additional allowance if the disposal value is less than the remaining balance value. This is a special kind of capital allowance. A balancing charge is calculated if the disposal value is more than the remaining balance value. The balancing charge is added to the taxable income.

A balancing allowance for assets in the pool is only calculated in the case of cessation of the farm. If an asset is sold without giving up the farm, the total disposal value is brought into account to reduce the pool. If the disposal value is less than the remaining reducing balance value, the disposal value is just reduced from the reducing balance value and no separate balancing allowance is calculated. If the disposal value is more than the reducing balance value, the capital allowance in that year is at most the disposal value and the difference between the disposal value and the reducing balance value is the balancing charge.

If an asset which is not placed in a pool is sold, the calculation is simpler. The difference between the disposal value and the balance value is either a balancing charge (if it is positive figure) or a balancing allowance (if it is a negative figure). Table A10.1 shows the reducing balance in case of a pool and in case of a separate asset. In year 3, an asset is sold for €500.

A10.1 Reducing balance value, disposal €500.

Year		Pool	Separate asset
1	reducing balance value	2,000	
	acquisition	1,000	1,000
	first year allowance (40%)	400	400
	capital allowance (25%*2,000)	500	
2	reducing balance value	2,100	600
	capital allowance (25%)	525	150
3	reducing balance value	1,575	450
	disposal of asset 500 euro	500	500
	capital allowance (1,575 - 500)*25%	269	
	balancing charge (500 - 450)		50
4	reducing balance value (1,575 – 500 - 269)	806	

If the disposal value in year 3 is only €400 instead of €500:

A10.2 Reducing balance value, disposal €400.

Year		Pool	Separate asset
3	reducing balance value	1,575	450
	disposal of asset 400 euro	400	400
	capital allowance (1575 - 400)*25%	294	
	balancing allowance (450 - 500)		50
4	reducing balance value (1575 – 400 - 294)	881	

Since 1997, a number of capital allowances schemes have been introduced to encourage investment in particular assets or by particular sorts of businesses. First-year allowances enable a greater proportion of the capital expenditure on an asset to be set against the business's profits of the period during which the investment is made. Investments in for example energy saving or water-efficient receive a 100% first-year allowance.

No capital allowance is available for production rights.

5. *Capital gains tax*

A capital gain is calculated by deducting the acquisition or base cost from the disposal value. If the disposal value is less than the acquisition cost, no capital gain arises, but either a balancing charge or allowance arises (see section A4). The acquisition or base cost is indexed by reference to changes in the retail price index from March 1982, or from the date of the acquisition. Assets owned before 31 March 1982 acquire a new base cost, which is their fair market value at that date. The so-called indexation allowance is calculated up to April 1998. Taper relief in 1999 replaced indexation. Taper relief reduces the amount of chargeable gain according to the length of time the asset has been held after 5 April 1998. Table A10.3 show the percentages of taper relief.

Table A10.3 Rate taper for percentage of taxable capital gain

Number of years	Percentage of taxable gain	Business assets Non business assets
0	100	100
1	50	100
2	25	100
3	25	95
4	25	90
5	25	85
6 or more	25	80

Source: IBFD (2004).

A capital loss incurred by a company may be offset against capital gains in the accounting period or in future accounting periods; it may not be carried back or set off against profits. Gains on specific assets (land, buildings, fixed plant, etcetera) may be rolled over into the cost of acquiring other similar replacement assets, provided all the proceeds from the disposal are re-invested.

A number of exemptions and reliefs apply. Exemptions include a basic annual exemption, which for 2003-2004 is €11,618[1] for an individual and €5,809 for a trust, the taxpayer's sole or main residence, racehorses, deemed disposal on death, government stock, qualifying corporate bonds (being loan capital denominated in sterling and not convertible into share capital, timber (standing or felled) sold by the occupier of the woodland or forest and gifts to charity (IBFD, 2004).

Capital gains tax is levied at the income tax rates, the chargeable gain being treated as the top slice of taxable income and taxed at the rates of 10%, 20% or 40% according to the extent to which the gain falls within the relevant income bracket (see A7) (IBFD, 2004). The tax on capital gain is calculated independently from tax on dividend and savings.

Acquiring the right to produce is regarded as a capital expense and similarly the disposal of the right in quota is a capital receipt by the vendor. This capital acquisition is not deductible in computing the profits in an accounting period in which the transaction takes place. Milk quota in possession since 1983 will be fully taxable at sale as capital gain (also without deduction of costs), because it was allocated free of charge thus having no base value, but Taper Relief will apply to this type of asset. Where any quotas have been purchased since 1983, the acquisition cost will be allowable expenditure, but this will be allocated to the entire quota on a pooled basis with deductions strictly in accordance with the proportion sold. Other livestock quotas are also taxable on the same basis, as there is no attribution of cost or deemed devaluation of the land, which can be deducted. Sugar beet quota has only recently been allowed to be traded and is treated in a similar way as other quota (EFAC, 2000).

[1] 1982 was selected as base year for revaluation and for application of indexation. It is used exclusively, no other date applies.

When disposing of a farm, there are a number of exemptions from capital gains tax that can be applied. Firstly, there are the regular exemptions explained above. With regard to the sale of land, it is unlikely that any capital gains will arise because the value of land in 1982 was comparatively high when indexation was added to this value to arrive at the base value. However, if land is sold for development and above agricultural value, there may be substantial capital gains tax to pay. The sale of a small part of the land (under 20% of the total value of the estate and under €28,571) can be deducted from the original cost of the remaining land without the need to calculate any gain at the time (EFAC, 2000). There is no capital gains taxation upon death.

6. Allowances and tax reliefs

The basic personal allowance deduction from total income for 2003-2004 is €6,787[1]. The basic allowance can be transferred to the spouse. An age allowance is an optional alternative to the basic personal allowance. It is given where a taxpayer is aged 65 or over at any time during the year of assessment. If the total income for 2003-2004 exceeds €26,324, the age allowance is reduced by half of such excess. For persons aged 65 to 74, the allowance is €8,809, while it is €9,206 for persons over the age of 74.

For people with children and people who work as an employer or who are self-employed, there are additional tax credits. In cases where the payable tax is lower than the tax credit, the additional amount is received. The amounts for the working credit are shown in table A10.4.

Table A10.4 Working tax credits

Credit	Amount (€)
Basic element	2,243
Couple and lone parent element	2,206
30 hour element	912
Disabled worker element	3,000

Source: IBFD (2004).

The amounts for the child credits are shown in table A10.5.

Table A10.5 Child tax credits

Credit	Amount (€)
Family element	801
Family element, baby addition	801
Child element	2,125

Source: IBFD (2004).

The Working Tax Credit, whether on its own or in addition to Child Tax Credit, will be reduced if the annual income is more than €7,676. The maximum amount is reduced by 37 % of the income over the threshold. If the income is more than €73,529, the child tax credit is

[1] 1 Euro = 0.68 British Pound.

only the family element and the baby addition, which is additionally reduced with 6.67% of the income above €73,529.

7. Tax rates (including social security and other obligatory contributions)

For 2003-2004 the income tax rates are shown in table A10.6:

Table A10.6 Income tax rates

		Rate (%)		
Type of rate	Bracket (€)	Dividend	Savings	Other
Lower	Up to 3,074	10	10	10
Basic	3,074 - 47,647	10	20	22
Higher	Over 47,647	32.5	40	40

Source: IBFD (2004).

The savings income rate applies to income from saving sources, for example bank and building society interest, government securities, National Savings first option bonds, authorised unit trust and personal equity plan loans and deposits and to the income element of a purchased life annuity.

The calculation of the tax payable is rather complicated, since the tax is not calculated in each category of income separately. If, for example, a farmer has the following income (after allowances):

- taxable profits: 4,000;
- savings: 5,000;
- dividend: 3,000.

The tax calculation is shown in table A10.8. Firstly, the income not from dividends or savings is filled in the brackets, starting in the lower bracket. Then, the income from savings is added, starting in the bracket which was not yet completely filled up. Next, the income from dividends is entered in the brackets, starting from where the income from savings ended.

Table A10.7 Example calculation of income tax

Taxable income from	Income	Taxable amount lower bracket up to €3,074	Rate(%)	Taxable amount middle up to €47,647	Rate(%)	Taxable amount upper bracket	Rate(%)
Profits	40,000	3,074	10	36,926	22		40
Savings	6,000		10	6,000	20		40
Dividend	6,000		10	1,647	10	4,353	32.5
Taxation per bracket		307		9,488		1,415	

Domestic dividends are taxable at a reduced rate due to the operation of an imputation tax credit system. The tax credit attaching to the dividend is reduced to one ninth and is not refundable. The individual's taxable income is the dividend plus the credit, and the tax credit of one ninth is set off against the individual's tax liability on the dividend and the credit (table A10.8).

Table A10.8 Example calculation of dividend taxation.

Dividend	900
Tax credit of 1/9	100
Taxable dividend	1,000
Tax rate (for example 32.5%)	325
Less tax credit	100
Tax payable	225

The aim of the National Insurance Contributions (NIC) was to fund the National Health Service, Unemployment Benefits and the State Pensions. The legal authority for the social security system is the Social Security Contributions and Benefits Act 1992. However the direct link between the input and the output has been lost and the contributions are now added to the general Treasury funds (EFAC, 2000). For 2003-2004, the following National Insurance contributions are payable by individuals (IBFD, 2004):

- class 1 - Employees: the contribution is nil for the first €131 of weekly earnings and 11% on the next €744 up to the upper earnings of €875 a week. If the employee participates in (a) an employer-sponsored pension scheme or (b) a personal pension plan, which contracts the employee out of the State Earnings related Pension Scheme (SERPS), the 11% rate is replaced by a 9.4%;
- class 2 - Self-employed: self-employed persons pay a flat rate of €3 per week. A small earnings exemption limit (annual) of €6022 is applicable;
- class 3 - Voluntary contribution: the voluntary contribution payable by the non-employed or non-resident to preserve their entitlement to the social security pension are €10 per week;
- class 4 - Self-employed: contributions are payable by the self-employed at 8% of the annual earnings between €6,787 and the upper earnings limit of €45,500 and at 1% in the excess over €45,500. The payment does not give entitlement to social security benefits and is de facto an additional income tax. No payment is due from taxpayers who have reached pensionable age (65 for men and 60 for women) by the beginning of the year of assessment.

Self-employed persons such as farmers and other persons liable to schedule D cases I and II, may be charged, in addition to the normal flat rate Class 2 contribution, on earnings related amounts under Class 4 (EFAC, 2000).

A flat-rate first tier pension system is provided by the state and is known as the Basic State Pension (BSP). The state, employers and private sector financial institutions, the so-called three pillars of support in old age, provide second-tier or supplementary pensions. Employees and the self-employed in receipt of earnings subject to the National Insurance Contributions (NIC) will build up entitlement to BSP. Secondly there is a Second State Pension Scheme (S2P), only available to employees, for earnings between €131 and €875 a week. Self-employed are not entitled to this pension scheme and have three individual pension choices:

1. the personal pension scheme (PPS);
2. the groups personal pension scheme (GPPS);
3. stakeholder pension scheme (SPS).

A PPS is divided into two components. The first is an Appropriate Personal Pension Scheme (APPS), which is contracted out of S2P and provides 'protected rights' benefits that stand in place of S2P benefits. The second is an additional scheme, also contracted out, that receives any additional contributions up to Inland Revenue limits. A GPPS is a scheme that has been arranged by a small employer with only a few employees: it is essentially a collection of individual schemes, but with lower unit costs because of the savings on up-front marketing and administration costs. A SPS is a low-cost PPS with charges capped at 1% p.a. of the fund value and into which contributions of up €5,294 p.a. can be made irrespective of whether the SPS member has made any net relevant earnings during the year (Blake, 2003).

B.1 Tax on property

1. Object of taxation

Local authorities levy tax on real property. This is the main tax income for the local authorities from inhabitants. A council tax assessment is regarded as having a 50% property element and a 50% personal element. Hereby the assessment is reduced by 25% if the dwelling is occupied by only one adult person, and by 50% if the dwelling is empty or a second home. There are a lot of these factors that can reduce the assessment. Some special dwellings are even completely exempted from tax.

Business properties pay a uniform business rate on their rateable property. Non-domestic property is liable to business rates.

2. Valuation

Council tax is a local charge on domestic property and is stipulated annually by local charging authorities. Each dwelling receives a single assessment. The tax is based on the market value of the dwellings and the number of residents. In each authority area, the dwellings are valuated and placed in one of eight valuation bands, A to H. The band determines the amount of tax to be paid for each dwelling. Band D is the main band and the other bands are stipulated relative to the D band.

Farm houses, farm cottages, croft houses and houses connected with fish farms are all subject to special provisions. They are moved to a lower valuation band then in which they would otherwise be placed (NILF, 2002). Agricultural buildings are exempt from the tax on business property.

3. Allowances and tax reliefs

Council Tax bills may be reduced by the disability reduction scheme, reductions where there is only one occupier and certain benefits for those on low incomes. There are also a number of exempt categories. The tax is deductible from the income. Agricultural land and buildings are exempted.

4. Tax rate

Council Tax rates vary widely, but currently average €1,484 per annum per dwelling.

B.2 Tax on wealth

There is no net wealth tax.

C. Inheritance and gift tax

1. Valuation

All valuation is done under market value principles. The district value is responsible for doing the calculation.

2. Allowances and tax reliefs

Inheritance tax is charged on the transfer of all property passing on death (chargeable transfers). No general gift tax exists, but to avoid too obvious avoidance inheritance tax is also levied on certain gifts made within seven years before death of a person (potentially exempt transfers). The gifts are exempt provided:

- the donor lives for more than seven years after the date of the gift. However the rate of tax reduces after three years by 20% and an extra 20% per year until it receives the full 100% relief after seven years;
- the donor does not retain any benefit in the asset gifted. Even a small interest could negate the whole gift and crystallize the tax.

The scope of inheritance tax is further extended by inclusion of gifts made outside such seven year-period, but from which the deceased has not been entirely excluded for the past seven years prior to death (gifts with reservation).

Agricultural property relief is available for agricultural land, with buildings, cottages and farmhouses (of an appropriate character) at the following rates (EFAC, 2000):

- where the land and property is occupied by a donor and has been for two years at 100%;
- where land and property is occupied by another but has been owned for seven years and vacant possession is available within 24 months at 100%;
- where land or property is occupied by another (but has been owned for seven years) under an agricultural tenancy agreement granted before 1 September 1995 and vacant possession is not available within 24 months, at 50%;
- where land or property is occupied by another under an agricultural tenancy agreement granted after 1 September 1995 at 100%.

Business property relief (100%) applies to the farmer's interest in the business, which will include the other assets, which are necessary to equip the farm. Gifts up to €4,412 in a tax year (any unused amount of the exemption may be carried forward for one year) are exempt, even if they are made within seven years before death.

3. Tax rate

Above the amount of €375,000, the rate is 40% for chargeable transfers and 20% for chargeable lifetime transfers. Inheritance tax is charged on a seven-year basis, so that chargeable transfers (lifetime or on death) are cumulated with transfers within the previous seven years for computing the tax payable. If the transferor has survived more than three years after making the gift, a sliding scale reduction applies (IBFD, 2004).

D. Other

1. Transfer tax

The recent modernization of Stamp Duty (other than a change of its name by adding the term Land Tax) has seen the abolition of all duty on property other than land, shares and interests in partnerships. The rates for Stamp Duty Land Tax are the following from 1-12-2003 (table A10.9).

Table A10.9 Transfer of Land and Buildings

Rate	Land in disadvantaged areas (€)		All other land in the UK (€)	
	Residential	Non-residential	Residential	Non-residential
Zero	0 - 220,588	All	0 - 88,235	0 - 220,588
1%	220,588- 367,647		88,235 - 367,647	220,588- 367,647
3%	367,647- 735,294		367,647- 735,294	367,647- 735,294
4%	Over 735,294		Over 735,294	Over 735,294

Source: HM Revenue & Customs.

No stamp duty is due on the transfer of the assets on death.

2. Value Added Tax (VAT)

The standard VAT rate is 17.5%. A reduced rate of 5% applies to supplies of fuel and power used in homes and by charities. A zero rate applies to supplies of a number of commodities, such as foodstuffs, books, newspapers and children's clothing (IBFD, 2004). Also, many of the supplies made by farmers will be zero-rated. Zero-rated products for farms can be divided into four main groups:

- food for human consumption;
- animals to be slaughtered and animal feed;
- live animals;
- seeds and plants.

Farming businesses can reclaim 70% of the input tax on the repair and maintenance costs of a farmhouse provided some conditions are met.

Farmers can also apply to a flat rate scheme as an alternative to VAT. A farmer registered under the flat rate scheme does not account for VAT and can therefore not reclaim input tax. However, it is possible to add a flat rate addition (FRA) on goods and services sold to costumers who are registered for VAT. The flat rate addition is 4%. This addition is not VAT but acts as compensation for losing input tax on purchases. The flat rate addition is part of the business takings and should be included in sales. For the customers, the flat rate addition can be reclaimed on their VAT returns if the goods or services are for business use. A farmer cannot join the flat-rate scheme if the value of his non-farming activities is above the VAT registration threshold (NILF, 2002).

3. Excise duty

There are special low rates of excise duty on fuel for agricultural use and concessions on farm vehicle annual taxes (OECD, 2005). The tax rate on 'red' diesel, for exempted agricultural vehicles is 6.21 eurocent/litre. Ordinary white diesel is taxed at 78.34 eurocent/litre.

4. Environmental taxes

There is a Landfill Tax, which is levied per tonne of material delivered to the refuse site. The current rates for Landfill Tax are divided in two rate levels: the lower rate (for inactive material) is €240 per tonne. The standard rate €26 per tonne, rising by €4 per annum until €51 in 2010.

The climate change levy is applied as a specific rate per nominal unit of energy. There is a separate rate for each category of taxable commodity:

- electricity = €0.0063 per kilowatt hour;
- gas supplied by a gas utility or any gas supplied in a gaseous state that is of a kind supplied by a gas utility = €0.0022 per kilowatt hour;
- any petroleum gas, or other gaseous hydrocarbon supplied in a liquid state = €0.0141 per kilogram; or
- any other taxable commodity = €0.0171 per kilogram;
- furthermore there is a Pesticide Tax under negotiation. No exemptions for agriculture are present (HM Revenue and Customs).

5. Other

None

E. Examples

<u>*Partnership*</u>

Assumptions:

- oncome of the farm: €50,000;
- 2 entrepreneurs;
- 2 young children.

Private farm		
Profit		50,000
Personal allowance	(2*6,787)	13,574
Taxable amount		36,426

Taxable per entrepreneur		18,213
Income tax per entrepreneur	(3,074*10% + 15,139*22%)	3,638
Total income tax		7,276
Social security		
Class 2	(€3 per person per week)	312
Class 4	(6,787*0% + 8% * 18,213)*2	2,914
Total social security		3,226
Tax credits		
Child tax credit-family element		801
Child tax credit-child element	(2,125 *2)	4,250
Working tax credit-basic element		2,243
Working tax credit-couple element		2,206
Working tax credit-30 hours element		912
Total before income correction		10,412
Total tax credit after income correction		801

Since the income is above the first threshold of €7,676, the amount is reduced with 37% * (50,000-7,676) = 15,660. However, since their income is less than €73,529, they still have the right of the family element of €801. Would their income be higher than €73,529 then the right of the family element would be reduced with 1/15 of the income beyond the threshold.

Total	(7,276 + 3,226 - 801)	9,701

<u>*One man business*</u>

Assumptions:

- income of the farm: €50,000;
- 1 entrepreneur;
- 2 young children

Private farm		
Profit		50,000
Personal allowance	(2*6,787)	13,574
Taxable amount		36,426
Income tax	(3,074*10% + 33,352*22%)	7,645
Social security		
Class 2	(€3 per person per week)	156
Class 4	(6,787*0% + 8% * 38,713)	3,142
Total social security		3,298

Tax credits	
Child tax credit-family element	801
Child tax credit-child element (2,125 *2)	4,250
Working tax credit-basic element	2,243
Working tax credit-couple element	2,206
Working tax credit-30 hours element	912
Total before income correction	10,412
Total tax credit after income correction	801

Since the income is above the first threshold of €7,676, the amount is reduced with 37% * (50,000-7,676) = 15,660. However, since their income is less than €73,529, they still have the right of the family element of €801. Would their income be higher than €73,529 then the right of the family element would be reduced with 1/15 of the income beyond the threshold.

Total:	7,645-801+3,298	10,143

Literature

Blake, D., *The United Kingdom Pension System: Key Issues*. Pension Institute, Birbeck College, University of London, 2003.

EFAC, *Taxation of Agriculture in Europe*. Kluwer, Deventer, 2000.

Eurostat, *Statistics in Focus, Structure of Agricultural holdings United Kingdom 2003*. Luxembourg, 2004a.

Eurostat, *Structures of the taxation Systems in the European Union*. European Commission, Directorate-General Taxation and Customs Union, Luxembourg, 2004b.

HM Revenue and Customs, Online resource available at: www.hmrc.gov.uk.

IBFD, *European Tax Handbook 2004*. 2004.

Inland Revenue, *Help sheet IR222*.

NILF, Andersen, F.G., Asheim, L.J., Mittenzwei, K. and Veggeland Frode, *Taxation of Agriculture in selected Countries. Study of The United States, Canada, Australia, Germany, United Kingdom, Ireland, France, Switzerland and Italy with relevance to the WTO*. Norwegian Agricultural Research Institute, Oslo, 2002.

OECD, *Non-sectoral Policies for Agriculture and Agro-food Sectors: Taxation and Social Security*. Working Party on Agricultural Policies and Markets, 2005.

Veen, H.B. van der, K.H.M. van Bommel and G.S. Venema, *Family Farm Transfer in Europe, A focus on the Financial and Fiscal Facilities in Six European Countries*. 2002.

Consulted experts

- Peter Prag
  Department of Real Estate & Planning, University of Reading
  Internet: www.reading.ac.uk
- Roger Gibbard
  Department of Real Estate & Planning, University of Reading
  Internet: www.reading.ac.uk