EFFECTIVENESS OF TAX INCENTIVES GRANTED TO INDIVIDUAL AGRICULTURAL PRODUCERS

Djumanazarova Guzal Jabbarovna
Head of personnel department
Babarakhimova Guliza Jumakul kizi
Engineer of personnel department
https://doi.org/10.5281/zenodo.7637852

Abstract: This article analyzes the relevant findings from the literature on taxation and agriculture, focusing on four areas: the impact of income tax on income levels and variability; the impact of property taxes on farm transfers and structural adjustment; the impact of taxation on investment and innovation; and the performance of tax instruments for improving environmental sustainability.
Keywords: effectiveness of tax, product classification, granted to individual, product competitiveness, product life cycle concept, product modification.

The literature review identified several studies on the impact of income tax on farm income levels and variability, where “income tax” can include both personal income tax (for farm households) and corporate income tax (for farm enterprises), although the former is more common in OECD countries. However, most analyses collectively considered the effect of changes in the whole tax regime on level of income, rather than merely the income tax provisions. The works can largely be divided along thematic lines, with several comparing how tax regimes affect competitive position (vis-à-vis the agricultural tax systems of other countries), while other studies analysed the potential effects of changes to an individual country’s tax code in an empirical framework. Literature in the latter category is focused on the United States, as that country recently underwent a major overhaul of its tax system.

From an economy-wide point of view, general work on the usage of income taxes in overall tax structures provides some insights that are relevant to the agricultural sector. Previous OECD work on how tax structures can best support growth established that taxes on corporate and personal income are the tax categories that most distort economic incentives for production, and are therefore the most harmful for a country’s overall economic growth. The authors of this study stressed that tax systems should “avoid encouraging economic behaviour that could influence market activity adversely” – in other words, policymakers should ensure that the tax system does not penalise the very activities that are most conducive to growth. In lieu of taxing income, the review instead suggested that countries rely more heavily on less distortionary taxes,

such as property taxes and, to some extent, consumption taxes. At the same time, given the importance of land as a factor of production in the agricultural sector, the more detailed implications of this ranking of taxes from most to least distortive with respect to the agricultural sector deserves further study.

Specific work related to taxation in agriculture largely took a more comparative approach to analysing diverse tax systems. Work from Norway comparing the tax regimes of nine different countries (Australia, Canada, France, Germany, Ireland, Italy, Switzerland, the United Kingdom, and the United States) served as the basis for previous OECD work on taxation in agriculture. While that analysis made no direct quantitative comparisons between countries, it did conclude that every country analysed had some form of tax expenditure for farmers (where a "tax expenditure" is defined as "a fiscal advantage [that] is conferred on a group of individuals, or a particular activity, by reducing tax liability rather than by direct cash subsidy"). The authors found that the focus countries differed in the "volume and shaping" of tax expenditure benefits, including which expenditures were offered, the applied tax rates under similar provisions across countries, and how the countries have designed their tax bases. These expenditures included special systems for valuing income, tax averaging systems, special property tax valuations, inheritance tax reductions and farm transfer provisions. Previous OECD work on farm income extended upon this conclusion, providing some quantitative evidence that OECD taxation regimes very often provide relative benefits to farm households. The analysis found that in several member countries, the economic position improved for farm households compared to non-farm households when after-tax income was considered. It also found that income taxation reduced the frequency of low incomes among farm households.

Two articles from Europe compared the tax system of different Member States in an effort to assess how the different tax regimes might affect the competitive position of their respective agricultural sectors. In a 2007 analysis, authors compared the agricultural tax systems of Belgium, the Czech Republic, Denmark, France, Germany, Hungary, the Netherlands, Poland, Spain, and the United Kingdom. After considering various provisions in the different countries – including income smoothing, depreciation, investment, and overall tax rates – the authors concluded that in aggregate, the tax systems in Belgium, France, the Netherlands, and the United Kingdom were the most supportive, in that they resulted in a lower overall tax burden for the agricultural sector (compared to the other countries examined), supported innovation and investment, allowed larger farms to develop efficiencies of scale, and facilitated farm transfers. For

example, the authors noted that the availability of income averaging in France, the Netherlands and the United Kingdom allowed farmers the flexibility to smooth their variable taxable incomes, which helped to reduce their tax burden. A subsequent analysis from 2012 compared only the tax systems of Belgium, Denmark, France, Germany, and the Netherlands. The results of this analysis indicated that specific components of each tax system (including provisions for social security contributions or depreciation) could have a large impact on overall tax burden and income in a given year.

Turning to the empirical analyses, two recent studies looked at the likely effects of the 2017 US Tax Cuts and Jobs Act (TCJA).4 Both research teams considered the multi-dimensional mechanisms through which the law would affect farm household tax burdens, but using different analytical frameworks. First, Williamson and Bawa considered how the law would affect farm income using data from the US Internal Revenue Service and Agricultural Resource Management Survey (ARMS) in a tax simulation model. Their results suggested that, had the law been in place in 2016, farm households would have seen their average effective income tax rate fall by 3.3 percentage points to 13.9%. The authors estimated that tax rates would have declined for farms of all sizes and types, although the magnitude of these effects varied. In contrast, Beckman, Gopinath analysed the impacts of the law using a CGE framework, arguing that the implications of the tax reform are such that a whole economy analysis is needed to estimate the law's likely effects. They found that TCJA will likely lead to a decline in agricultural production as resources are allocated to other sectors, but farm household income is likely to rise because of higher income from non-farm activities.

Independent of the 2017 tax bill, an additional analysis from the United States looked at the role of various factors in farm household economic returns, including tax-loss benefits. The authors reported that tax allowances for depreciation expenses (in this case, immediate expensing through accelerated depreciation provisions) reduced farm income variability, as investments in depreciable assets typically occurred in high income years, thus allowing households to reduce their tax burden. Overall, the authors estimated that farm households reporting negative income for tax purposes in 2015 received an average economic benefit of USD 2 178 per household from those losses.

In addition to discussing the impact of taxation on income levels, various authors also highlighted the potential benefit of tax averaging to smooth income variability (although none attempted to specifically quantify those benefits). In

one example, an analysis of the Australian agricultural tax system found tax averaging to be a useful tool to help farmers manage fluctuations in primary income . Similarly, an analysis from the European Union highlighted the potential tax benefits of averaging – particularly for industries like horticulture that are associated with high income volatility.

References:

1. Altiyev A.S., Tashkulov A.H. Land taxation and its land influence on the arrangement of relations. // Proceedings of the republican scientific and practical seminar, TIQXMII. - T.: 2022
2. Altiyev A.S., Hayitmurodov A. Organizational and economic mechanisms of land ownership in Uzbekistan. //"Economic newsletter of Uzbekistan", 2021.-JVs4-5
3. Altiyev A.S. Economic principles of land valuation. //"Economic newsletter of Uzbekistan", 2021.-JV«4-5
4. Abdullayev Z. Foreign experience in using land resources. //"Economic newsletter of Uzbekistan", 2016.-JVsl 1
5. Abduganiyev A. Earth monitoring. //"Agriculture of Uzbekistan", 2021, - Nsl
6. Abdug'aniyev A. Economic efficiency of irrigated land use. // Materials of the scientific-practical conference "The main directions of the development of republican agriculture in the conditions of economic liberalization". - T.: 2002