CURRENT PROBLEMS AND TRANSFORMATIVE ASPECTS OF TAXATION: THE CASE OF THE AGRARIAN SECTOR

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ABSTRACT

The agricultural sector has significant significance since it serves as the primary provider of food, which is an essential need for sustenance. Nevertheless, the evaluation of its impact on national revenue, employment, international commerce, and the supply of raw materials to the sector reveals its strategic significance. Hence, nations prioritize the development and execution of accurate and enduring policies for the agriculture industry. The integration studies with the European Union (EU) play a significant role in the formulation and execution of agricultural policy. Hence, the diverse impacts of agricultural policy on the agricultural sector are influenced by the development pattern and outcomes in different nations. This course will focus on agricultural policy and the taxation regulations involved in agriculture policy.

Keywords: Tax Policy, Economic Development, Agricultural Sector, Tax Policy, Digital Tax, Modern Problem

INTRODUCTION

The process of digitizing economies has been accelerating, resulting in significant transformations across all sectors of society. As an essential function of the government, tax administration is not exempt from the influence of such profound changes. The tax environment worldwide has been experiencing significant and rapid changes due to technological innovation and improvement. Given this progress, the process of converting tax administrations into digital systems is now absolutely imperative rather than an option. Tax authorities must not fall behind in using digital technology to enhance their operations.

The utilization of digitalization and technology has the capacity to effectively influence the manner in which tax administrations gather, handle, and respond to information, therefore enhancing the efficiency, transparency, and fairness of the systems. From the perspective of taxpayers, digitization has the potential to streamline and simplify the process of complying with tax regulations by seamlessly integrating it into their everyday lives and company operations. Despite the good features, the process of digitizing tax administrations has encountered several hurdles. One significant difficulty in underdeveloped nations is the absence of fundamental technology infrastructure. However, transitional economies and established nations have difficulties in using data to enhance tax compliance and streamlining tax compliance procedures. In order to fully use the benefits of digitalization, many components must align harmoniously. The revolution necessitates not only the assimilation of new technology, but also entails the alteration of work patterns and the introduction of several management issues. Successfully navigating the various phases of digitalization demands both resilience and perseverance. The transformation of tax administration processes from manual to digital enterprise. Every tax authority must modernize its operations, without exception. Tax administrations in various nations are now at varying levels in the process of achieving a complete digital transformation. The three phases of transition from a conventional paper-based tax administration to a comprehensive digital business are referred to as Tax Administration 1.0, Tax Administration 2.0, and Tax Administration 3.0: Tax administration version 1.0: The period characterized by the use of manual and paper-based processes.

Tax Administration 1.0 embodies the conventional method of tax administration, which is distinguished by the use of manual and paper-based procedures. In this period, taxpayers were obligated to provide their tax-related information in physical form, and tax officials physically handled and examined these papers. Nevertheless, this manual technique often led to delays, mistakes, and inefficiencies. In addition, the use of paper-based technologies posed difficulties in managing substantial amounts of data.

Tax Administration 2.0, commonly referred to as "e-administration," was developed as a solution to the shortcomings of Tax Administration 1.0. This phase sought to use digital technologies and data-driven techniques to enhance the efficiency of tax administration procedures. Tax authorities have begun implementing electronic filing systems, enabling people to electronically submit their tax forms. Online platforms for tax payments and transactions were created, allowing taxpayers to easily meet their tax responsibilities online.

Under Tax Administration 2.0, tax authorities started using analytical tools and algorithms to detect taxpayers with a high risk of non-compliance and analyze data. Partnerships were established between tax administrations and other government agencies with the aim of facilitating the sharing of data and information to enhance efforts to ensure compliance. Although Tax Administration 2.0 introduced notable enhancements to tax administrations, it has not fully used the whole capabilities of digital technology.

Tax Administration 3.0 aims to seamlessly incorporate tax processes into the digital ecosystems of taxpayers. Tax Administration 3.0 was developed as a response to the constraints of Tax Administration 2.0. Tax Administration 3.0 envisions a future when taxes seamlessly integrates with taxpayers' digital ecosystems. Tax administrations may greatly decrease compliance obligations and improve accuracy by integrating with the technologies that companies use for their operations, transactions, and communication.

Tax Administration 3.0 highlights the need of safe and effective communication channels between taxpayers and tax authorities. These channels facilitate the prompt exchange of information, inquiries, and dispute settlements. Nevertheless, these additional capabilities and enhancements also bring about demanding consequences.

The process of digitizing tax administrations involves several advantages and difficulties. Regarding the advantages, digital transformation has the capability to optimize tax procedures, strengthen adherence to regulations, improve the management and analysis of data, and promote cooperation between tax administrations and other government entities. These factors together enhance the efficiency, transparency, and fairness of the processes. Enhanced transparency, facilitated by the digitalization of taxpayer information, has the potential to bolster taxpayers' confidence, foster a stronger state-citizen rapport, and facilitate the effective mobilization of domestic income. Furthermore, by using technology, tax authorities may enhance compliance, diminish tax evasion, and lower administrative and enforcement expenses. The implementation of electronic filing systems including automated tax computations, online portals for tax payments, and digital identification frameworks has the potential to greatly decrease the effort required to comply with tax regulations and improve the accuracy of tax reporting. However, the obstacles to be conquered in the process of digital transformation in nations are intricately linked to the general progress in digital technology of the respective country. Countries in the early stages of digitalization are facing difficulties in establishing the necessary infrastructure, while countries that are more advanced are encountering challenges related to data security, privacy, and confidentiality. These challenges include addressing ethical and legal concerns, ensuring fair access to digital services and resources, and training the workforce to adapt to the digital era. Therefore, it is necessary for every tax administration to create a customized solution that specifically targets and resolves its unique difficulties. In order to successfully and sustainably execute a digitalization plan, tax administrations must take a proactive approach and prioritize meeting the demands of the stakeholders. Recently, tax authorities worldwide have effectively implemented digitalization programs. The tax administration (AFIP) of Argentina implemented the "Comprehensive System for Monitoring Payments Abroad for Services" (SIMPES) in 2022. Prior to making payments to overseas service providers, the SIMPES system mandates the analysis of tax compliance and financial capabilities of people and companies responsible for such payments. The SIMPES, or Simplified Information System for Tax Evasion Prevention, is specifically created to assist the AFIP, or Federal Administration of Public Revenue, in detecting and investigating instances of tax evasion. This system largely depends on the use of data matching techniques. Recently, the new technology has shown its effectiveness in tracking unreported crypto-asset income, which is a kind of revenue that is notoriously hard to monitor for tax compliance. The Argentinian case demonstrates the need for tax authorities to adjust to and embrace technological progress in order to meet the demands of taxpayers.

LITERATURE REVIEW

The agricultural industry, due to its unique characteristics, is subject to heightened governmental regulation. Every year, the subsidies allocated to this industry amount to billions of dollars. This is seen by the case of the European Union, where agricultural policy garnered significant focus. In addition to domestic subsidies and assistance from the EU, each state implements various measures to promote agricultural output. These policies are driven by the unique characteristics of the production cycle, the social importance of agriculture, the increased risks related to food security, and other relevant aspects. Therefore, agriculture is considered a distinct entity in the global tax system, subject to different tax exemptions and preferential treatment. In addition, this method is widely used, in conjunction with the implementation of targeted subsidies and other budgetary mechanisms for state assistance in the agricultural sector. In the tax framework of industrialized nations, agriculture often incurs both national taxes, such as corporate income tax and value added tax, as well as municipal taxes, including land and agricultural taxes (Zotikov, N., Savderova, A., & Lyubovtseva, E. 2020).

Agriculture often benefits from advantageous indirect taxes, such as VAT and sales tax. Various methods are used to determine VAT rates for farmers, such as linking it to the farmer's income in certain EU countries. However, in most cases, the rates are based on the type of product and its social and economic importance. Reduced rates are typically applied to agricultural and food products. Therefore, agricultural firms in Germany and France are completely free from VAT4. In China, agricultural outputs that are generated and implemented by farmers themselves are exempt from taxation. In several places in the United places, food is either exempt from sales tax or subject to a lower tax rate. The preferential system for farmers exempts them from taxes while purchasing raw materials, plants, and equipment for agricultural purposes.

The taxation system for agricultural organizations has distinct features that are exclusive to this sector. Firstly, it is determined by a particular tax system that is created by legislation - the uniform agricultural tax, which may be enforced by the relevant authorities in their individual areas. The taxation system for agricultural enterprises is characterized by a significant number of tax benefits (Korostelkina & Simonova, 2019; Voznyuk, 2016).

Unfortunately, the exemptions granted to agricultural companies have proved to be unsuccessful, as seen by the heavy tax burden in the industry and the decrease in economic efficiency. Malyshev et al. (2020) found that the regional perspective shows different degrees of tax burden in the agriculture industry (Golubeva, S. G., Barinova, O. I., Shilova, I. N., et.al 2021).

This underscores the need of implementing customized taxation policies that are grounded on the distinct activities of agricultural producers across different regions (Pashchenko, 2013; Shipulina & Borovkov, 2018).

Governments have imposed taxes on agricultural producers for several purposes: to generate revenue for government spending, to transfer resources from the agricultural sector to non-agricultural sectors, to encourage efficiency and diversification in agricultural production, and to redistribute income within the agriculture sector. There are a minimum of four issues with agricultural taxes in the majority of impoverished nations. Firstly, there is an excessive number of conflicting purposes associated with taxes.

Furthermore, the order of importance among goals is not well defined or easily understood. Furthermore, some tax devices have adverse consequences on both the efficiency and fairness of the economy. Ultimately, there are significant political and administrative limitations.

The primary goals of agricultural taxes are to create government income and redistribute a significant amount of resources from the agricultural sector to the rest of the economy. The aims were based on the post-World War II development strategy, which aimed to achieve fast industrial expansion by extracting surplus from agriculture via intentional and methodical government involvement. The justifications for imposing a significant tax burden on agriculture and the resulting negative outcomes have been well documented. A significant portion of the tax burden faced by agricultural producers may be attributed to implicit taxes, such as overvalued exchange rates, non-tariff barriers, import duties, and procurement programs that impact output prices via monopolistic marketing. These policy tools have caused income transfers across sectors and income groups and have affected resource allocation without generating money, save in the form of profits for marketing boards or procurement agencies.

Direct taxes imposed on agricultural producers are less readily transferable compared to indirect taxes. However, the land tax may be transferred to tenants or lessees under certain conditions: (i) if the land market lacks competition, (ii) if the supply of land is relatively scarce, and (iii) if the renters and workers are not well-coordinated. Taxes on income, personal assets, and wealth may have an impact on the amount of surplus goods available for sale in the market and the amount of labor that people are willing to provide. There is ongoing debate over whether a well-planned land tax can enhance efficiency and promote fairness. Direct taxes encounter significant and vociferous resistance, are difficult to evaluate, and entail substantial costs for enforcement and administration. The resistance to direct taxes stems from many factors: firstly, the presence of numerous covert and indirect taxes; secondly, the lack of transparency about expenditures and benefits for taxpayers; and thirdly, the prevalence of corruption and fraud within the tax administration. Quantifying the earned revenues in agriculture is challenging due to well recognized factors. Primarily, a significant portion of agricultural output occurs at a small scale. Furthermore, a significant portion of the production is used internally and not sold in the market. Furthermore, there is a lack of documentation on the expenses incurred for inputs, the volume of outputs produced, and the amount of output that has been successfully sold. Furthermore, there is a multitude of land tenures, which adds complexity to the distribution of shares in products and inputs. Ultimately, the expense associated with verifying real income is very expensive. As a result, governments have traditionally used various methods to estimate the expected income from agricultural land. These methods include calculating the average gross or net value of the land's output, considering the size of the land and its productivity or potential for production based on objective indicators, and taking into account the rental or discounted market value of the land. Various levels of government have also used land value as the foundation for assessing wealth and property taxes. Lastly, we must address the matter of taxing authority and administration. Taxation power is often distributed across many levels of government, including national (federal), state (provincial), regional, and local (municipal) administrations, in almost all nations. Typically, the implicit taxes are imposed by the highest level of government, usually at the national level. Explicit taxes are implemented and collected in various methods, depending on the constitutional and legal distribution of fiscal authority among different levels of government. Frequently, the central government exerts significant authority over tax collections and their allocation to subordinate tiers of government. The administrative frameworks responsible for evaluating and collecting taxes are plagued by a lack of coordination, insufficient resources, and an ineffective and underpaid workforce.

The taxation concerns in agriculture include a variety of challenges and factors that affect farmers, agribusinesses, and the agricultural industry in its whole. The nature of these challenges might be diverse, contingent upon variables such as governmental policies, tax frameworks, economic circumstances, and geographical disparities. Common taxes issues in agriculture encompass:

- The intricacy of tax codes: Agricultural tax rules and regulations may be complex and difficult to comprehend. Agriculturalists often have difficulties in comprehending and adhering to tax regulations, resulting in possible inaccuracies and penalties.
- Inequitable Taxation: Diverse agricultural operations may be subjected to disparate tax rates or exemptions, resulting in inequities in tax treatment. This may lead to disparities and distortions within the agricultural industry.
- Agricultural land and property taxes may place a substantial financial burden on farmers, especially in regions where land values are elevated or increasing. Excessive property taxes may diminish farmers' profitability and impede agricultural investment.
- The imposition of sales and use taxes on agricultural inputs, equipment, and supplies may augment the expenses associated with production for farmers. The many regulations surrounding sales tax, including exemptions and agricultural input exemptions, may create significant administrative and compliance difficulties.
- Estate and inheritance taxes may present difficulties for family-owned farms, especially when it comes to transferring the farm to the next generation. Excessive tax demands might compel families to sell their land or assets in order to meet their tax commitments, resulting in the consolidation or fragmentation of farms.
- The process of determining the appropriate taxes for agricultural income, which include revenue from crop sales, animal sales, and farm subsidies, may be complex. Agricultural producers may have difficulties in precisely documenting their earnings, particularly when operating diverse enterprises or generating money from non-traditional sources.
- Tax policy uncertainty refers to the lack of clarity and predictability about tax policies, including potential alterations in tax rates, deductions, credits, and incentives. This uncertainty may have a detrimental impact on the ability of the agricultural sector to make informed long-term plans and investment choices. Uncertainty in tax policy may cause farm enterprises to be hesitant in making investments or expanding operations.

METHODOLOGY

In this study, we used various data analysis and synthesis methods. The use of this method is important in terms of researching our topic.

DISCUSSION

The issue of regulation of tax policy is fundamental for every state. Organization of tax policy of agriculture, especially on the path of modernization, will create material support and foundation for the development process. In this regard, it should be kept in mind and farmers should be encouraged. It is important that it is organized in each of the relevant regions and not in one area.

CONCLUSION AND RECOMMENDATION

It is clear that public revenues in underdeveloped economies are significantly insufficient, but the means by which they can be rapidly increased is less clear. Specific tax mechanisms that are effective in one country may not be appropriate in another. However, governments have room for improvement in three areas: tax concepts, tax administration, and the social and political will to succeed.

Indeed, there is a real lack of comprehensive understanding of the specific types of taxes that can generate the most revenue while causing the least economic and perhaps political disruption. Tax policy is important in agriculture. Thus, correct adjustment of tax policy leads to investment promotion.

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