Executive summary of the public audit report

AGRICULTURAL TAX RELIEFS

20 December 2013 No. VA-P-60-3-24

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ABBREVIATIONS AND DEFINITIONS

Agricultural activities means activities comprising the production of agricultural products, processing of one's own produced and treated agricultural products, production of foodstuffs and selling of such products, as well as provision of services for agriculture, and/or maintenance of good agri-environmental condition of land[1].

Agricultural entity means a natural or legal engaged in agricultural activities or agricultural and alternative activities, or a group of natural or legal persons, a branch of a foreign legal person registered in Lithuania whose land holding is registered in the Agricultural and Rural Business Register of the Republic of Lithuania[2].

Control actions means operative checks, tax investigations or tax examinations carried out by the State Tax Inspectorate when controlling taxpayers.

STI means the State Tax Inspectorate.

NPA means the National Paying Agency under the Ministry of Agriculture.

[1] Law of the Republic of Lithuania on Agricultural, Agri-Food and Rural Development, 25 June 2002, No. IX-987, Art. 2(22).
[2] Ibid, Art. 2(23).

EXECUTIVE SUMMARY

As in many countries, agriculture in Lithuania receives special attention from the state. Farmers are treated as representatives of small business who are engaged in high-risk business that is subject to the influence of natural factors. One of the instruments of the state support for agriculture is granting various tax reliefs. A tax relief means special taxation conditions established in respect of the taxpayer or a group of taxpayers that are more favourable than the usual conditions of taxation[3].

The sixteenth Government Programme for 2012-2016 provides for reforming the tax system. One of the objectives of the reform is to apply only socially significant and targeted tax reliefs to business and the public and to provide for only economically feasible tax reliefs that promote economic development and pursue specific goals important to the society[4]. Thus, tax reliefs are a very important tax policy instrument. Lithuanian tax legislation provides 25 agricultural tax reliefs, thus agricultural entities in Lithuania are subject to special tax regimes, simplified schemes, or entities with the lowest income are completely exempted from income tax.

Every year the Ministry of Finance submits a set of state budget execution reports to the Seimas. The explanatory note thereto indicates the data on the loss of income due to tax reliefs. The information provided in the explanatory note for the year 2012 shows that the amount lost as a result of the application on one agricultural tax relief totals about LTL 274 million of the state budget revenue[5].

The objective of the audit was to assess the effectiveness of the application of agricultural tax reliefs by answering the following questions:

- Is there information available on the number of agricultural entities that are entitled to agricultural reliefs?
- Is there information available on the amount of declarable income from agricultural activities?
- Are there sufficient measures and instruments applied for administering agricultural tax reliefs?

The agricultural policy is shaped and implemented by the Ministry of Agriculture. The state policy in the field of finance is shaped, organised, coordinated, and controlled by the Ministry of Finance. The main body responsible for the administration of tax reliefs is the State Tax Inspectorate[6].

The audit conclusions were drawn upon the assessment and analysis of the data provided by the auditees and other entities on agricultural entities, agricultural reliefs and their application for 2009–2012.

The audit was conducted on the assumption that the auditees and other entities had provided detailed and objective information and that copies of documents corresponded to the original documents.

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[3] Law of the Republic of Lithuania on Tax Administration, 13 April 2001, No. IX-2112, Art. 2(9)

[4] Approved by Resolution No. XII-51 of the Seimas of the Republic of Lithuania.

[5] Exemption from excise duty that is applicable to agricultural fuels

[6] Law of the Republic of Lithuania on Tax Administration, 13 April 2001, No. IX-2112, Art. 15-16.

CONCLUSIONS

Agricultural entities have been included in the taxation system since 2009 with preferential taxation conditions. However, measures and instruments for administering the taxes paid by agricultural entities have not been fully evaluated.

1. The public registers do not have exact information that would allow establishing the number of persons engaged in agricultural activities. As a result, it is difficult to assess the expediency of the application of agricultural tax reliefs and their impact both on agriculture and on the budget revenue.
2. The amount of the agricultural income subject to declaration is not known, which makes it difficult to assess the scale of the application of agricultural tax reliefs and their impact on the budget revenue and agriculture. Also, reliefs may be available to persons who are not entitled thereto.
3. Inaccurate data on agricultural entities and their income has an impact on the administration of the taxes paid by agricultural entities and on the validity and significance of the control actions carried out by the STI, so it may happen that these entities are not properly controlled and do not pay taxes. The auditors found that 84 per cent of the selected natural persons had provided different information about their financial situation in 2009–2012 to the NPA and to the STI: the taxable income from agricultural activities indicated in their annual tax declarations to the STI is lower than the income given in the financial reports to the NPA by LTL 8.7 million.

RECOMMENDATIONS

To the Ministry of Agriculture:

In order to ensure that the Farmers' Farm Register contains relevant information, the Ministry should take measures to ensure that this data is updated on the annual basis and that the Register lists the farms that are actually operating.

To the State Tax Inspectorate under the Ministry of Finance:

1. In order to ensure accurate declaration of the income of agricultural entities from agricultural activities, the Inspectorate should introduce additional tax administration measures and instruments and carry out control of agricultural income of agricultural entities.
2. The Inspectorate should assess the financial data of 37 persons[7] for the period 2009–2012 who are specified in the Report, take control actions, and determine whether these persons had properly declared their taxable income from agricultural activities. The Inspectorate should also take control actions in respect of other persons who provide financial reports to the NPA and who are supposed to declare their income from agricultural activities to the STI. In case of incorrect information in the financial reports, the Inspectorate should notify the NPA thereof.

[7] Due to the protection of personal data, the list of the persons is provided in the letter addressed to the STI.