

ASSESSMENT OF TAX RELIEFS IN AGRICULTURE IN LATVIA

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Abstract. The development of fiscal policy requires a regular assessment of the granted tax reliefs and exemptions and their compliance with the national targets and guidelines. Farmers in Latvia receive significantly more and larger tax allowances than representatives of other sectors, so this is a very important task also in the agricultural sector. The research aim is to assess tax reliefs, their dynamics and impact on the tax burden in agriculture in Latvia. The most essential tax allowance in Latvia is social support for the population; however, despite this, Latvia still has one of the highest income inequality rates in the EU Member States. It is necessary to continue the reduction of labour taxes, which is also very important in agriculture, in order to reduce the income inequality. In line with the country's move towards the "green deal" and an increasing use of more economical technologies in agriculture, it is recommended to improve the application of excise duty reliefs on diesel fuel. The tax exemption for subsidies needs to be assessed in detail, as the positive aspects of this relief have a number of negative ones, mainly income inequality related with the tax imposition and lower social guarantees for farmers.

Keywords: agricultural taxation, tax allowances, tax reliefs, agricultural tax burden.

JEL code: H26, Q14

Introduction

There are relatively few research articles on the tax system in agriculture in the European Union (EU) Member States. This problem is more described by the Eastern European scientists, especially in Poland. Polish researchers such as Pawlowska-Tyszko, Soliwoda etc. in their research indicate that the competitiveness of each country's agriculture depends on a set of several factors, including the tax policy (Pawlowska-Tyszko J. et al., 2015). Gruzziel and Raczkowska have analysed the main principles for agricultural taxation in individual EU Member States and pointed out that countries may be divided into two basic models based on the common features of agricultural tax systems: the British model and the continental model. The authors recognise that the tax policy implemented in the EU Member States in relation to agriculture makes the most application of the principle of tax fairness without limiting the development potential of agricultural holdings but stimulating it (Gruzziel K., Raczkowska M., 2018).

Ukrainian scientists are also more actively focusing on the topic to study the possibilities of improving state support and tax policy in the field of agribusiness regulation and to identify the possibilities of its application in Ukraine (Kovalchuk I. et al., 2021). The impact of fiscal policy on agriculture is being analysed and criteria for determining the tax incentive effect on agricultural production are being sought, considering the experience of European countries (Lemishko O., 2017).

In Latvia, tax issues in agriculture have been relatively little studied. The author Leibus already in 2017 concluded that the increase in the tax burden in agriculture which occurs at the expense of taxes affecting the cost of production is to be assessed negatively. In contrast, the tax burden on income or capital taxes is decreasing in recent years (Leibus I., 2017). The trend is still continuing, as the proportion of labour taxes in agriculture continues to grow faster, while significant reliefs for the capital tax have been determined, resulting in a negligible capital tax burden.

Farmers in Latvia do not have a special tax regime but there are many different tax exemptions and reliefs available. In Latvia, tax experts have been indicating for several years that in order to increase the budget revenues it is necessary to evaluate the granted tax reliefs and exemptions instead of increasing the amount and rates of taxes. In essence, tax incentives are budgetary expenditures for specific purposes.

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In 2020, according to the estimates of the Ministry of Finance (MoF), the amount of tax reliefs was EUR 2.5 billion in Latvia, which is 25.9% of total tax revenue or 8.5% of GDP. In addition, the trend in recent years shows an increase in the absolute amounts as well as in the ratio of tax revenues and GDP (Nodokļu atvieglojumu novērtējums ..., 2022).

In order to assess the efficiency of existing tax allowances, it is necessary to identify the purpose of the specific incentive and its achievement. In addition, it is significant to assess whether the specific incentive contributes to the achievement of the national targets, complies with the identified priorities, does not distort competition and does not increase the administrative burden. The State Audit Office has also indicated on the need to evaluate tax allowances and instructed the Ministry of Finance to coordinate the evaluation of existing tax incentives by the end of 2024.

Consistent with the research problem, the authors advance the **hypothesis** that tax reliefs in agriculture only partially correspond with the national priorities. The research **aim** is to assess tax reliefs, their dynamics and impact on the tax burden in agriculture in Latvia. Accordingly, the set **tasks** are as follows: to analyse the dynamics of individual tax reliefs in the agricultural sector, to evaluate the positive and negative aspects of tax reliefs as well as their impact on the tax burden. The research employs monographic and descriptive statistical methods and covers the period from 2016 to 2020, though, in some cases the period is different due to the availability of the data.

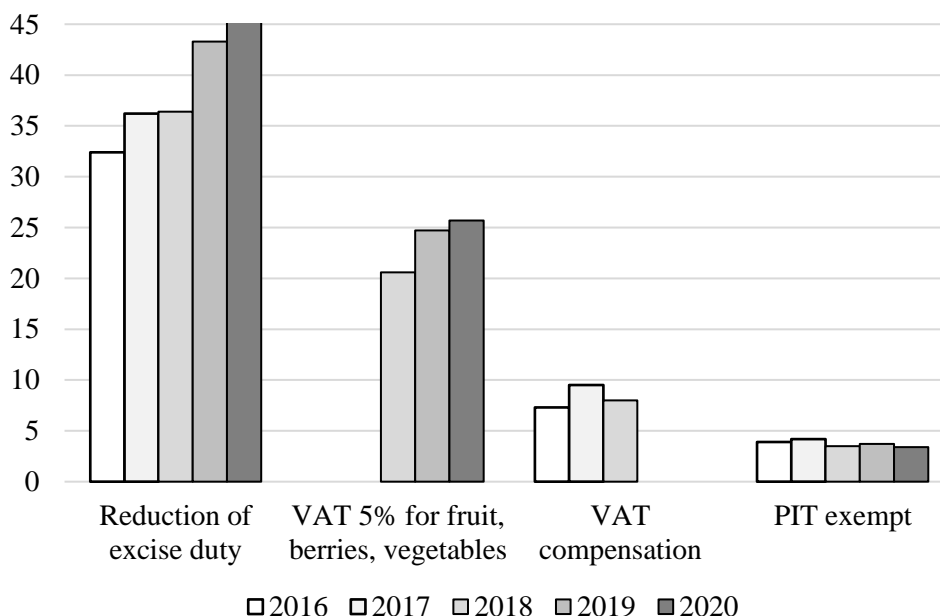
Research results and discussion

In Latvia, tax incentives are assessed according to the method of lost budget revenue; however, it is also very significant to consider an indirect impact of each relief on the national economy as a whole. According to the opinion of the State Audit Office, in some cases the targets to be achieved for the implemented reliefs have not been defined or they are vaguely formulated as well as the performance indicators and criteria to measure the achievement of the formulated targets have not been determined. Moreover, the introduction of tax reliefs is not always linked with the national and sectoral priorities.

The most important tax allowance in Latvia is social support for the population. In 2020, they accounted for 76% of all tax incentives, mainly implemented in the form of personal income tax (PIT) reductions through the application of the non-taxable minimum and other tax incentives. Under the *Latvian National Development Plan 2021-2027* Latvia has one of the highest rates of income inequality among the EU Member States and it shows an upward trend. It is planned to gradually reduce the tax burden on labour in order to lessen the income inequality. According to the calculations of the Ministry of Finance, the tax burden on labour was 39.5% in 2018 and it is planned to reduce it to 38.4% in 2024 and to 34.8% in 2027. In addition, the tax burden on labour is high particularly for low-income earners, so it is planned to continue reduction of the tax burden for low-income earners by shifting it to other sources, especially capital (Latvijas Nacionālais attīstības ..., 2020). Considering that the average work remuneration in agriculture is relatively lower than in Latvia on the whole, the problem is relevant also in this sector. Furthermore, the large proportion of insured persons whose object of mandatory state social insurance contributions (MSSIC) is below the minimum wage causes a problem. According to the data of the State Social Insurance Agency, the respective proportion was 31.3% in 2018 and the plans for the coming years envisage its gradual reduction to 27% in 2024 and 24% in 2027 (Latvijas Nacionālais attīstības..., 2020). Insufficient social insurance in agriculture has been a very topical problem for many years, since farmers are insured to a much lesser extent than it is in Latvia on average.

According to the calculations of the Ministry of Finance, the support for agriculture in the form of tax reduction in 2020 is estimated at EUR 59.5 million or 2.4% of total tax reliefs in Latvia; moreover, this

amount and its proportion have increased since 2018. The comparison of the trend with the data of an earlier period is not correct due to the tax reform implementation in Latvia in 2018, which resulted in a significant change in the corporate income tax (CIT) base acting in fact as a tax relief, because profits as such are exempt from tax and the tax is imposed only on distributed profit.



Source: data of the Ministry of Finance, 2022

Fig. 1. Most essential tax reliefs in agriculture in 2016-2020, EUR mln

The most significant tax relief for farmers is the reduction of excise duty, which is increasing with every year (Figure 1). In 2020, tax reliefs amounted to EUR 50.8 million or 4.8% of total excise tax revenue. The amount of excise duty relief for farmers has increased by EUR 18.4 million or 56.79% within the recent five years; moreover, the amount of this relief in relation to GDP has also increased, from 0.13% to 0.17%, respectively.

The comparison of reliefs from the excise duty among the Baltic States shows that the largest relief is applied in Latvia, as farmers pay 15% of the excise duty rate set for diesel fuel, while farmers in Lithuania and Estonia pay 16.1% and around 27%, respectively. In monetary terms, since 2020 the lowest excise duty on diesel fuel for farmers has been in Lithuania, namely, EUR 60 per 1000 litres and EUR 62.10 per 1000 litres for farmers in Latvia, while it is significantly higher in Estonia, namely, EUR 100 per 1000 litres. In addition, the rate was even higher in Estonia – EUR 133 per 1000 litres but it was reduced on 1 May 2020 unlike the other Baltic countries which experienced the increase in the excise duty rate.

In Latvia, the amount of diesel fuel with a reduced excise duty is differentiated depending on the crops being cultivated – farmers may purchase cheaper diesel fuel either 60, 100 or 130 litres per hectare. Given the excise duty on fuel has been significantly increased in recent years and has reached EUR 414 per 1000 litres, a 15% relief for farmers means cheaper diesel fuel (EUR 352 per 1000 litres), which allows reducing the cost of agricultural production. However, in view of the "green deal", an increasing use of more economical tillage technologies and changes in the Common Agricultural Policy, it is recommended to improve the application of excise duty reliefs; thus, contributing to more targeted use of "cheap" diesel fuel. One option is to differentiate the application of the relief, e.g., prescribing that a farmer has to pay the excise duty at the rate of 5% on half of the amount of diesel fuel granted and 25% on the other half.

Another option might be setting an even higher excise duty relief but for a smaller amount of fuel; thus, leaving the overall amount of relief unchanged.

The reduced value added tax (VAT) rate on fresh fruit, berries and vegetables typical of Latvia is the next most significant tax relief related to agriculture and being applied from 2018. However, taking into account the fact that VAT is a consumption tax that relates equally to all products traded (including imported) in Latvia, this allowance cannot be considered as a relief for agriculture. The 5% VAT rate was introduced to reduce the shadow economy in the sectors of fruit and vegetable growing, to increase the competitiveness of producers operating on the legal market and to reduce the prices of fruit, berries and vegetables; hence, increasing their consumption.

The 14% VAT compensation for agricultural producers, in turn, may be considered as a significant support for small farmers who are not included into the VAT register, as it allows to increase the profit of economic activity by covering the VAT expenses for raw materials, supplies and inventory. In addition, it lessens the administrative burden not only for taxpayers but also for the tax administration, since it reduces the number of farmers who are payers of the VAT. According to the State Revenue Service data on 1 February 2020 only 21.55% of farmers who are taxpayers have been registered in the VAT register. This shows very clearly that the majority of them own very small farms, as only reaching the turnover of EUR 40 000 within the last 12 months imposes a mandatory requirement to register as the VAT payer. The VAT compensation to small farmers is paid also in Lithuania. The amount of compensation is smaller than in Latvia, only 6%; moreover, it is paid not only for the sold agricultural products but also for the provision of agricultural services. An additional requirement for farmers in Lithuania – the area of arable land shall be less than 7 hectares.

The PIT exemption is also significant for small producers of agricultural products as well as providers of rural tourism services in Latvia, since the profit not exceeding EUR 3000 per year is not taxed. Historically, the amount has been changed several times along with the fluctuations in the economic situation in the country. In 2009, the PIT exemption was the largest amounting to LVL 4000 (EUR 5691) per year but the amount was reduced in 2010 due to the decrease in budget revenues. The impact of this exemption on the budget is gradually declining; in 2016, the amount of exemption was EUR 3.9 million in contrast to EUR 3.4 million in 2020. The decline is mainly related with the decreasing number of taxpayers in the sector. Annually, the tax exemption is used by less than 1/3 of farmers, which can be explained by the fact that most farmers in Latvia do not have a taxable profit, since the operating costs exceed the revenue and the profit is ensured through the EU and state aid in the form of tax-free subsidies. The comparison with the neighbouring countries evidences that this is one of the few allowances for farmers in Estonia; the tax-free amount has been increased from EUR 2877 to EUR 5000 per year from 1 January 2021. In addition, Estonia has an additional exemption of EUR 5000 for income from the sale of timber and felling sites. In Latvia, in turn, there is a separate lower rate for this and some other income, such as rental income, which does not in fact comply with the principle of tax fairness. It may be concluded that the income tax system in Estonia is much simpler, it does not have as many exceptions as it is in Latvia.

In Lithuania, farmers have significantly more favourable tax conditions compared with other sectors. Income tax for farmers is calculated at a progressive rate, e.g., 5% for income up to EUR 20 000 and 15% for income exceeding EUR 35 000. However, Besuspariene and Miceikiene acknowledge that there is no efficient system of subsidies and tax exemptions in Lithuania either and they recommend reviewing the applicable criteria to support only non-viable family farms. Preventive measures are needed to avoid manipulations if the farm is artificially rendered non-viable (Besuspariene E., Miceikiene A, 2020).

At present, farmers in Latvia and Lithuania are not subject to the personal income taxation either on the state aid to agriculture or the EU support to agriculture and rural development. The deterioration of the fiscal situation caused the cancellation of this exemption for small farmers (PIT payers) for three years (2010-2012). It is in force currently; yet, it is time-limited but the term is being extended from time to time. At the moment, the exemption is set till 2023. As indicated in the annotation to the Law on Personal Income Tax, this exemption is a partial compromise to solve the problem of relatively low income of Latvian farmers, while the support payments received in Latvia are disproportionately small compared with the EU average level. It is necessary to maintain this exemption, since the EU support for farmers in Latvia is lower than in the EU on average. However, it is recommended to distinguish between different types of support through the application of the exemption for the direct payments that are intended to foster the approximation of the average income of agricultural holdings to the income of the rest of the EU economy. In turn, support payments under various projects are applied as funding to cover certain expenses, such as the purchase of current assets or long-term investment. In fact, these payments do not constitute taxable profit. The increase of the "ceiling" on non-taxable agricultural income could be viewed as alternative to the tax exemption on subsidies. This option could help reduce inequalities in the application of the tax allowance and it will be discussed further in the article.

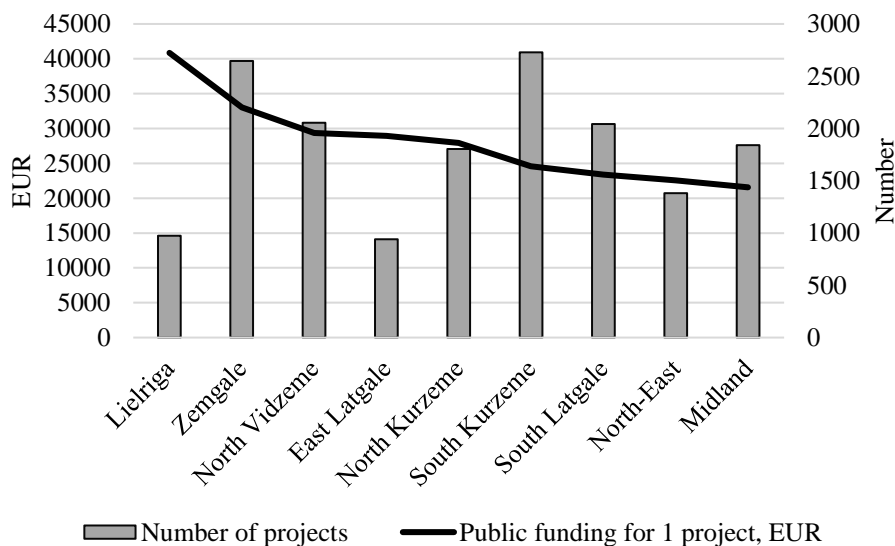
The object of CIT and thus the relief for farmers has been significantly changed since 2018. Until then, farmers, like other companies, paid the CIT on profit, which was reduced by various reliefs. Tax reliefs for farmers were applied according to the area of agricultural land and the tax, like it was for the PIT payers, was imposed neither on the received state aid for agriculture nor the EU support for agriculture and rural development. The CIT base was significantly narrowed as a result of the reform. At present, the CIT is levied only on directly or indirectly distributed profit; thus, fostering the activities of entrepreneurs to invest in business and reducing the desire of business owners to withdraw profit in the form of dividends. The existing CIT reliefs were replaced by a single deferred tax payment applicable to all sectors. The annotation to the *Enterprise Income Tax Law* specifies that such CIT model is in essence incompatible with tax reliefs, since the CIT is levied on expenses for which there is no basis for exemption from the CIT; however, there is an exception for farmers. The exception was also attributed to donations to public benefit non-profit organisations and certain transitional provisions to comply with the principle of legitimate expectations, e.g., the CIT relief for covering losses of the previous years.

Such CIT model was borrowed from Estonia, where it has been operating since 2000. However, unlike Estonia, an additional relief is set for agricultural holdings in Latvia, as their tax base is reduced by 50% of the amount received as state aid for agriculture or the EU support for agriculture and rural development. In addition, the relief is set not only on direct but also on indirect or deemed distributed profit. Farmers may also apply for the tax relief for expenses not related with the economic activity; though, companies of other sectors have to pay CIT for such expenses, for example, for the recreation of owners or employees, various gifts, purchase of representative cars etc. In fact, the relief granted to farmers contradict the purpose of the CIT introduction – to foster investment by reducing the distribution of profit. As a result of the tax relief, the owners of agricultural holdings are indirectly encouraged to distribute profit on a regular and maximum basis, as the relief is applicable only in accordance with the subsidies received during the accounting period. In addition, it should be considered that not all agricultural holdings may apply this relief, as the distribution of profit follows the FIFO principle, which means that the profit shall be distributed in chronological order starting from the previously gained but the problem lies in the fact that part of the holdings have not distributed their profits for many years. Moreover, this is often related with the specific nature of agricultural holdings, especially grain growing companies, as all profits have been used to

purchase new land areas for many years. As the purchase of land may not be attributed to operating costs, a large amount of retained earnings accumulates in the balance sheet, even though the money is actually spent. These companies may not apply for the CIT relief for the distribution of profit; thus, this relief is used for expenses not related with the economic activity. Therefore, it shall be concluded that the principle of fiscal fairness has not been observed, as there is no equal treatment of entrepreneurs in different sectors, and not all agricultural holdings have the opportunity to apply such a relief.

According to the data of the Ministry of Finance and the State Revenue Service, the CIT relief for subsidies is growing rapidly; hence, it was EUR 1.4 million in 2018, EUR 2.0 million in 2019 and EUR 2.7 million in 2020. Approximately 1000 taxpayers used this relief in 2018 and 2019, while the number increased to 1100 taxpayers in 2020, representing 3.16% of total taxpayers in the agricultural sector and 26.42% of the CIT payers in agriculture.

This leads to the conclusion that the practice applied so far by exempting all support payments for agriculture and rural development from taxation, promotes the income inequality which is already characteristic of Latvia. Only the richest farmers can afford to distribute profits and expenses that are not related with the economic activity. Moreover, wealthier farmers can also participate in more expensive projects, as they are able to provide larger amount of co-financing. Hence, inequalities are also promoted on a regional scale. For example, the comparison of the received public funding under the support measure *Investments in Tangible Assets* in 2014-2020 broken down by regions (Figure 2), allows concluding that the largest amounts per application were received in Lielrīga (EUR 40 852) and Zemgale (EUR 33 044), while significantly lower amounts were received in Midland (EUR 21 558), North-East (EUR 22 547), South Latgale (EUR 23 374) and South Kurzeme (EUR 24 560).



Source: authors' calculations based on the data of the Rural Support Service, 2022

Fig. 2. Number of applications and public funding per application by regions under the support measure *Investments in Tangible Assets* of the Rural Development Programme 2014-2020

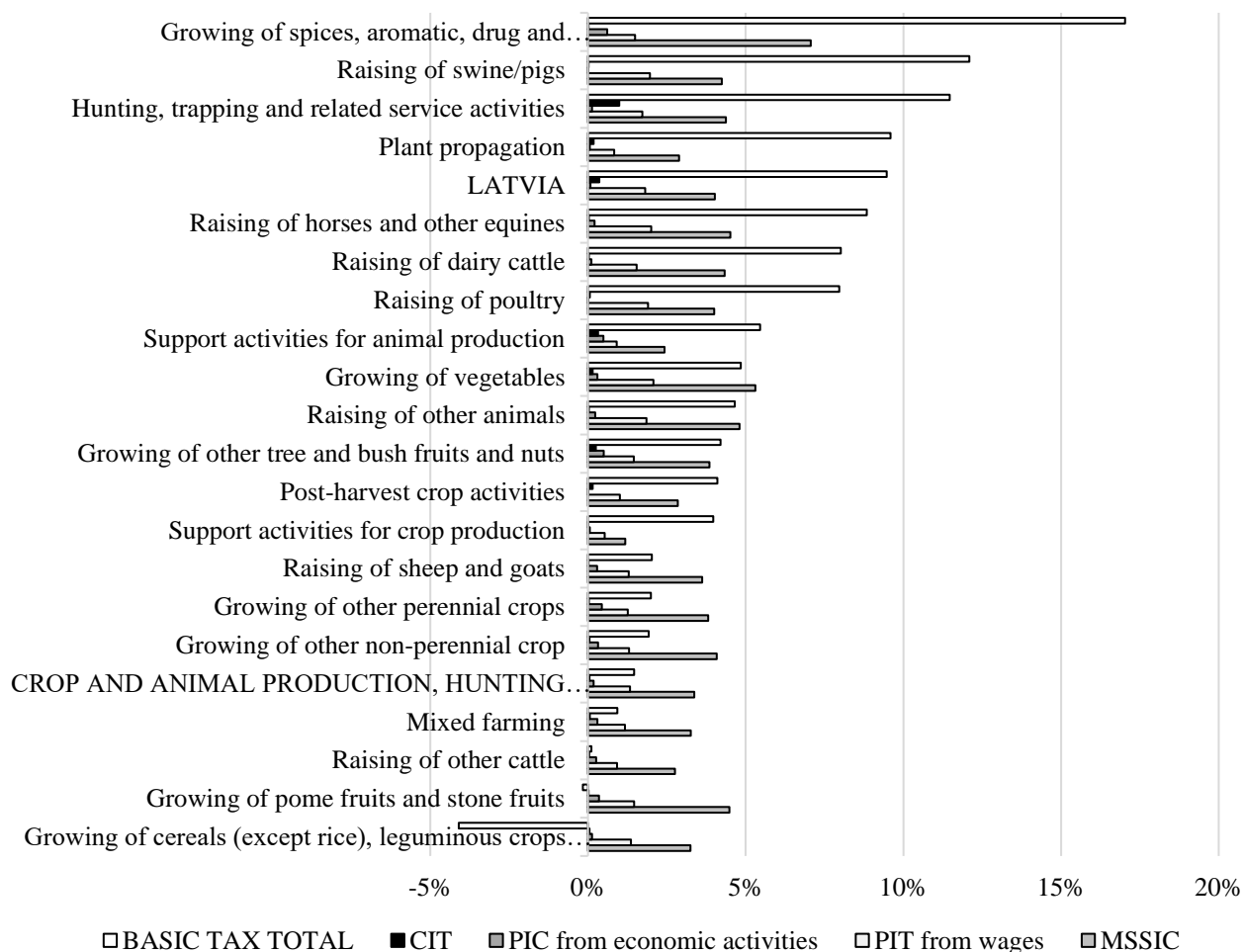
Farmers receive a tax relief also on vehicles (Figure 1). The manufacturer of agricultural produce pays a tax on a lorry in the amount of 25% of the vehicle operating tax (VOT) rate, and is exempt from the company car tax (CCT) if the conditions of the law are met. From a fiscal point of view, the revenue lost to the budget due to the relief is relatively small, annually totalling just over EUR 3 million. However, the CCT exemption does not apply equally to all farmers, since only agricultural holdings are allowed to use it but not self-employed farmers. The difference is significant, for example, a farm may receive a tax exemption

and write off all expenses arisen from the use of car fully as expenses of the economic activity, while self-employed farmers may write off only 50% or maximum 70% if they indicate travel routes.

Farmers who do not have an employment relationship with their farm have three different allowances for making social insurance contributions. First, the income from agriculture is not subject to the mandatory state social insurance contributions (MSSIC) for self-employed old-age pensioners and disabled persons of Groups 1 and 2. Second, the MSSIC assessment base for a self-employed person does not include amounts received as the state aid for agriculture or the EU support for agriculture and rural development. Third, farmers unlike other self-employed persons calculate contributions for the insurance of old-age pensions in the amount of 10% on the basis of annual not monthly profit. This advantage is introduced given the fact that income from agriculture may be highly seasonal, i.e. income can be earned once a year – by selling products, while expenses and labour are invested throughout the year.

However, alongside with the positive aspect of social insurance – reduction of the tax burden in the agricultural sector – there is also a negative aspect. Many farmers have had insufficient social security already for many years. Due to the fact that the majority of farmers gain profit directly through the subsidies that are not included in the MSSIC object, a very large number of farmers does not have sufficient insurance period to receive an old-age pension, contributions are insignificant and farmers are not insured for other cases, such as, sickness and maternity or disability. This problem could also be solved by including the amounts received as support for agriculture and rural development, especially those paid to cover certain expenses, in the MSSIC assessment base.

The taxation problems differ across agricultural sub-sectors. The authors have used statistical data of the State Revenue Service on sub-sectors consistent with the NACE Level 4 classification to analyse the problematic issues of taxation. The tax burden in Figure 3 shows the ratio of calculated basic taxes (labour taxes, income taxes and VAT) to income from the economic activity or turnover. In general, the burden of base taxes in the sector *Crop and animal production, hunting and related service activities* (NACE code A01) is more than three times lower than in Latvia on average (2.81% and 9.47%, respectively in 2020). This is mainly due to the significant tax allowances for the sector. However, the tax burden varies widely across sub-sectors.



Source: data of the State Revenue Service, 2022

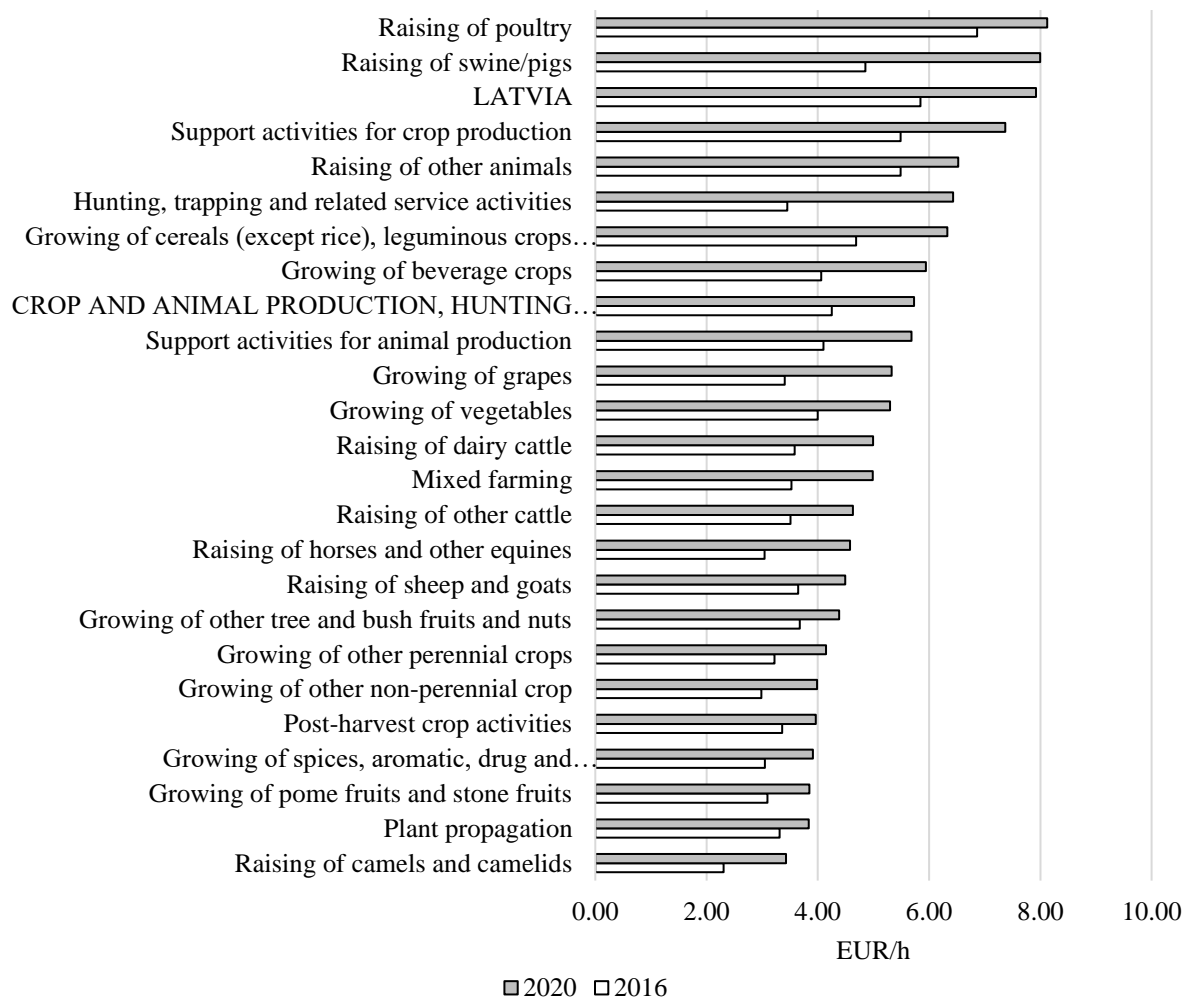
Fig. 3. The base tax burden in the sub-sectors of Crop and animal production, hunting and related service activities and the country in general in 2020, %

The tax burden is the highest (17.03%) for companies whose main activity is *Growing of spices, aromatic, drug and pharmaceutical crops*; it exceeds the average figure of the sector six times and almost twice the national average figure. Though, the number of companies is small, only 24 companies or 0.10% of the number of analysed agricultural holdings. The high proportion of manual labour in the sub-sector and the correspondingly higher tax burden on labour (8.55%) compared with the sector as a whole (4.81%) cause higher tax burden. The PIT payments for operating income are also higher than the sector average (0.61% and 0.1%, respectively).

The next largest tax burden (12.09%) is observed in the sub-sector *Raising of swine/pigs* which is more than 4 times higher than the average in the sector A01 as well as it is above the national average. The tax burden is mainly composed of labour taxes (6.22%). The sub-sectors like *Plant propagation* (9.59%), *Raising of horses and other equines* (8.84%), *Raising of dairy cattle* (8.01%) and *Raising of poultry* (7.97%) also stand out with a higher base tax burden. In fact, a higher base tax burden is due to these labour-intensive sectors, since all of these sub-sectors produce the highest labour tax burden which exceeds the industry average.

The CIT costs in sector (A01) are 0.55%, i.e. 0.19 percentage points higher than in Latvia on average. However, they are mainly caused by the sub-sector *Hunting, trapping and related service activities*, where the CIT burden is 0.99%. It is below the sector average in the sub-sectors directly related with agricultural activity.

Comparing the costs of PIT from economic activities, it shall be acknowledged that their impact on the tax burden is negligible – the tax burden is 0.14% on average in the sector (A01) and 0.08% in Latvia. As already noted, it is higher in the sub-sectors *Growing of spices, aromatic, drug and pharmaceutical crops* (0.61%), *Growing of other tree and bush fruits and nuts* (0.50%) and *Support activities for animal production* (0.49%). This shows that self-employed persons predominantly operate in these sub-sectors by earning higher taxable income than the sector average.



Source: data of the State Revenue Service, 2022

Fig. 4. **Work remuneration in the sub-sectors of Crop and animal production, hunting and related service activities in 2016 and 2020, EUR/h**

Differences in the tax burden on labour in certain sub-sectors are justified by differences in work remuneration (Figure 4). The highest work remuneration in the agricultural sector is observed in *Raising of poultry* – 8.13 EUR/h in 2020 which exceeded the average work remuneration in Latvia and the sector as a whole (A01) by 2.65% and 41.88%, respectively. Moreover, the average number of hours worked per month is also the largest in 2020 – 151 days, while these are 127 days in the country on average and 124 days in the sector (VID dati, 2021).

The work remuneration (8.00 EUR/h) in the sector *Raising of swine/pigs* and the number of hours worked are also higher than in Latvia and the sector. The work remuneration in other sub-sectors is below the average in Latvia. The average work remuneration (5.73 EUR/h) of the sector A01 is exceeded in the following sub-sectors: *Support activities for crop production*, *Raising of other animals*, *Hunting, trapping*

and related service activities, Growing of cereals (except rice), leguminous crops and oil seeds and Growing of beverage crops.

The work remuneration in 2016 and 2020 is lower in the sector (A01) (4.25 EUR/h and 5.73 EUR/h, respectively) compared with the national average, and although it has grown by 34.82%, the growth slightly lags behind the national average (from 5.84 EUR/h to 7.92 EUR/h or by 35.58%, respectively). In some traditional sectors of Latvia, the growth has been faster, especially in *Raising of swine/pigs* by 86.51% as well as in *Raising of dairy cattle* by 39.44%. In the sector *Raising of poultry*, in turn, work remuneration was already the highest in the sector, which probably explains the relatively small increase in wages – only by 18.34%.

In general, there is a tendency that work remuneration and its growth in crop production are lower than in other sub-sectors. This is partly due to the tax allowance for the employment of seasonal agricultural workers, which has been in force since 2014. Unlike other employees, for whom the MSSIC have to be paid in the amount of 34.09% and the PIT has to be withheld in the amount of 20%, the income tax for seasonal agricultural workers is 15%. It is withheld from the wage calculated for the seasonal agricultural worker, besides 90% of the withheld tax are transferred for the insurance of his/her old-age pension. Until now, this opportunity may be used for seasonal nature work: sowing or planting of fruit-trees, berries and vegetables, caring for sowings and plantings, harvesting, sorting of fruits, berries and vegetables. The number of farms benefiting from allowances related with the employment of seasonal agricultural workers is increasing every year. In 2021, this opportunity was used by 279 farms, employing 3530 agricultural workers. The evaluation of the results of application of this allowance leads to the conclusion that such regime reduces the shadow economy in the sectors of fruit growing and horticulture. Moreover, it significantly reduces the administrative burden for employers – farmers who employ seasonal agricultural workers; thus, it has been decided to extend its application by including stone picking works and prolonging the period for the tax allowance application from 65 days to 90 days.

Farmers in Latvia also receive immovable property tax relief, as buildings and engineering structures used only for agricultural production are not taxed. The tax on utilised agricultural area, in turn, has not been reduced; on the contrary, uncultivated agricultural land is taxed with the rate of 3% (base rate is 1.5%) of the cadastral value. However, given the rapid increase in cadastral value, until 2025 the immovable property tax for agricultural land is calculated from the special value so that the annual tax increase does not exceed 10%; thus, ensuring a proportionate increase of the immovable property tax burden for farmers.

Conclusions, proposals, recommendations

- 1) The assessment of the presently granted tax reliefs and exemptions and their compliance with the national targets and guidelines is recommended to increase the budget revenues without the increase of the amount and rates of taxes.
- 2) The most significant tax allowances in Latvia are related with social support for the population. Nevertheless, Latvia has one of the highest income inequality rates in the EU Member States. In order to reduce this, it is necessary to continue the reduction of labour taxes, which is also very important in agriculture, especially in labour intensive sub-sectors.
- 3) In line with the country's move towards the "green deal" and an increasing use of more economical technologies in agriculture, it is recommended to improve the application of excise duty reliefs on diesel fuel to promote more targeted utilisation of the "cheap" diesel fuel.

- 4) The tax exemption for subsidies needs to be assessed in detail, as the positive side has a number of negative aspects, mainly the lack of fairness in taxation, inequality in income taxation and lower social guarantees for farmers.
- 5) Farmers in Latvia receive significant tax reliefs which have been introduced to promote the development and competitiveness of the sector; however, along with the changes in agricultural policy as well as to ensure long-term development of the sector, the need for specific allowances and results achieved need to be evaluated regularly. At present, tax reliefs in agriculture only partially comply with the national priorities and guidelines.

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