

Methods of Sustainable Regulation of Agricultural Enterprises at the Present Stage

Baglan AIMURZINA
Faculty of Economics
Kazakh University of Economics, Finance and International Trade, Kazakhstan
mazken_kamenova@mail.ru

Mazken KAMENOVA
Faculty of Economics
Kazakh University of Economics, Finance and International Trade, Kazakhstan
mazken_kamenova@mail.ru

Ainura OMAROVA
Faculty of Economics
Karaganda Economic University, Kazakhstan
ainuraphd@mail.ru

Ainakanova BAKYTGUL
Faculty of Economics
S.Seifullin Kazakh AgroTechnical University, Kazakhstan
bakysia_1983@mail.ru

Kazkenova AIGUL
Faculty of Economics
S.Seifullin Kazakh AgroTechnical University, Kazakhstan
kaz_aiga@mail.ru

Shaikenova NURGUL
Faculty of Economics
S.Seifullin Kazakh AgroTechnical University, Kazakhstan
nurgul_12.1972@mail.ru

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Abstract:

This article notes that one of the real sectors of the economy contributing to the development of Kazakhstan is agriculture. In this regard one of the priorities of the economy of the Republic of Kazakhstan is the accelerated sustainable development of agriculture on the basis of tax methods of regulation of agricultural producers. Taxes are one of the most important economic regulators, the basis of financial and credit mechanism of state regulation of economic sectors including agriculture. It is obvious that the success of economic reform in Kazakhstan depends to a large extent on the directions in which the transformation of the tax system of the country will go, how much the tax policy of the state will meet the requirements of the development of socially important sectors of the economy.

The analysis of the structure of tax revenues from the subjects of sustainable development of agriculture of the Republic of Kazakhstan shows the impact of reducing the tax burden on the income of agricultural producers. Proposals for further improvement of tax regulation are given.

Keywords: sustainable development; agricultural production; agricultural producers; tax regulation; tax burden; special tax regimes

JEL Classification: Q01; Q10; Q50.

Introduction

In a market economy of the main regulators are taxes which the state uses as a means of influence not only on the economic but also on the social processes taking place in society. The current system of payments of agricultural enterprises to the budget is a set of mandatory contributions of part of their earned funds for state needs in the form of taxes.

1. Research Background

Theoretical bases of taxes and taxation were developed by A. Smith, D. Ricardo (Smith 1993). Developing the theory of taxation D. Ricardo wrote: "Taxes constitute the share of the product of land and labor of the country which comes to the government; they are always paid ultimately either from capital or from the country's income (Ricardo 1993).

The influence of taxes on production was investigated by A. Laffer – representative of the theory of supply economy who graphically established the dependence of tax revenues on the tax rate. The main idea was that as the tax rate increases tax revenues will rise to some maximum level but further increases lead to lower production incentives (Yutkina 2016).

A. Marshall considered the issues of tax theory in terms of supply and demand: the tax reduces the demand and as a result and the volume of production. Consequently it obviously increases production costs, increases the price by an amount greater than the size of the tax and finally reduces consumer demand by a much greater amount than the total amount of revenues from it to the treasury (Marshall 2013).

Problems of improving the economic mechanism of management of the agricultural sector of the economy are also covered in the works of S. Fisher, R. Dornbush, R. Shmalenzi, M. Tracy (Fischer 2013).

Tax benefits are widely used by the state in the management of reproduction processes, investment promotion, development of new technology, expansion of activities and others. The tax component of the economy of Kazakhstan is in its essence one of the most important components of financial support of its development and actually forms the potential of the regions and the Republic as a whole. At the same time the disclosure and use of potential is a prerequisite for the dynamic development of the economy as well as determine its market prospects (Nurumov 2016).

2. Methodology

The tax component characterizes the provision of the economy reverse financial flows which show the effectiveness of business development in this particular area. In addition it helps to understand the importance of feedback for the economy of the region which is reflected in the payment of relevant taxes by taxpayers. Hence the higher the tax revenues in the economy of the regions and the Republic as a whole, the greater the opportunities for their further "reinvestment" and ultimately the use of opportunities for their self-development.

The development of the economy of the Republic is characterized by flows of tax revenues to its budget on the basis of which the reverse financial support of the whole system is formed. But the principle of supporting the effective development of the economy and the corresponding financial support of the country's most priority sectors shows that not all sectors are currently capable of high growth rates. Many industries of the Republic may enter into the global economic system and to take it in the best perspective position.

The percentage of the reverse flow of financial resources in the industry the functioning of which allowed to obtain the relevant taxes shows that there is a gradual increase in financial support in the form of refinancing the country's economy. According to Professor A. A. Nurumov based on the values of the percentage return of tax revenues received the need to determine the level that by means of the reverse flow of resources can be considered satisfactory to support the economy. It is very important that the level of support for the development of the industry should be such that the process of production of competitive products, the process of updating fixed assets by enterprises, as well as the necessary innovative investments (Nurumov 2016).

According to Professor Zeynelgabdin A. B., Z. D. Iskakova the evaluation of the efficiency of use of all elements of the financial system in particular the budgetary and their impact on the financial resources of

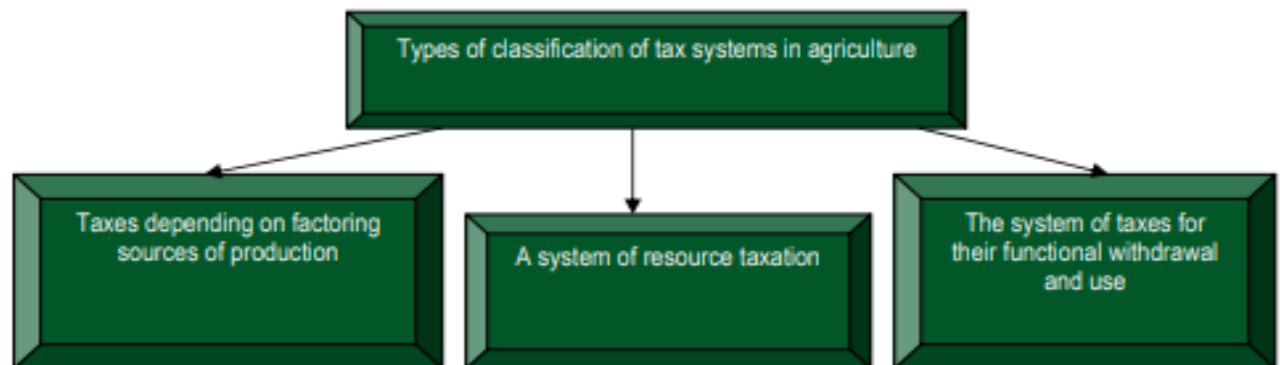
economic entities and the population allow to develop specific practical recommendations and proposals for the functioning of the financial sector of the Republic in the new decade as well as a comprehensive study of the interaction of the real and financial sectors of the economy (Iskakova 2018).

In the developed world agriculture is subject to taxation along with other sectors of the economy. At the same time traditionally the agricultural sector is granted certain tax benefits as well as a special tax regime associated with the specific features of production: seasonality, dependence on the weather factor, the predominance of small family producers.

Tax policy in agriculture is aimed at solving diverse problems and is not as it is sometimes represented a tool only for subsidizing the sector. Taxes can be stimulated or conversely suppress certain types of activities (e.g., environmental events are often driven by taxes).

In general the whole system of taxes in agriculture depending on the factoring sources of production, functional removal and use can be represented by three large interchangeable blocks (figure 1). The given classification of taxes is necessary in the analysis and selection of rational structures of taxation in agriculture. Therefore each of the interchangeable blocks in turn requires structuring.

Figure 1. Types of classification of agricultural tax systems



Source: compiled by authors

Agriculture is sensitive not only to the level of taxes but also to their combination. The fiscal objectives of agricultural taxation depend very much on whether taxes are applied to a commodity (resource) with elastic or inelastic demand. So the earth has a highly inelastic demand so increase in the land tax is accompanied as a rule increase revenue and taxing the use of fertilizers will most likely to reduce their use. Finally tax policy in the agricultural sector is very sensitive to lobbying. In the developed countries of the world agricultural lobbies have a strong influence on their governments so tax benefits become a form of subsidizing the agricultural sector. At the same time it should be taken into account that tax benefits to agriculture are not considered as a form of subsidies that distort world trade and accordingly are excluded from the Marrakesh and Uruguay GATT (WTO) agreements on agriculture. In all countries the evolution of the tax system was on the way of simplification, reduction of the number of existing taxes (their combination), reduction of the level of rates and expansion of the tax base. At the same time a higher degree of tax benefits is maintained in countries where relatively small production units prevail in the structure of production. In the US where the size of farms is larger and production efficiency is higher tax reform is on the way to the gradual abolition of some benefits (Zeinelgabdin 2009).

The main direction in the field of tax policy in the market conditions is the definition of taxes that rationally express new relations between the state and taxpayers. Consequently the tax system should ensure the effective development of production.

The state is able to influence various spheres of social production by providing benefits to certain categories of entrepreneurs. For example by providing tax benefits to certain categories of producers or even completely exempting them from paying taxes the state promotes the development of this industry or the economy contributing to the inflow of investments in this sphere increasing the number of economic entities in it, increasing the competitiveness of goods produced by reducing the cost of their production. Conversely imposing higher taxes in a particular area the state can very effectively reduce any kind of entrepreneurial activity until the complete collapse of production.

3. Results

In order to streamline the taxation of peasant (farm) farms, simplify calculations with the budget, the development of the most effective forms of management and rational use of land as well as a common approach to this important problem The tax Committee of the Ministry of Finance of the Republic of Kazakhstan has developed a simplified tax system (in accordance with the Law of the Republic of Kazakhstan dated April 24, 1995 №2235 "on taxes and other obligatory payments to the budget") and the procedure for issuing certificates to peasant (farmer) farms and patents to agricultural producers having the status of a legal entity

As the main advantages of the simplified system of taxation of agricultural producers can be called that the single tax is paid-the fee for the patent the cost of which includes all the main types of taxes provided by the current legislation. The simplified tax regime assumes accounting without the use of the method of double entry and the plan of accounts of financial and economic activity of the entity. In this case they are exempt from filing a Declaration of taxes included in the calculation of the patent value.

That is along with budgetary instruments using tax levers the state can actively influence the effective development of agricultural production. Also in conjunction with the considered levers the credit system occupies a particularly important place.

For the first time since 1998 the Tax legislation of the Republic of Kazakhstan introduced simplified taxation mechanisms for agricultural producers for which land is the main means of production. Agricultural producers have the right to apply one of the following procedures when calculating taxes:

- a) generally established;
- b) special tax regime for legal entities – producers of agricultural products;
- c) special tax regime for peasant (farm) farms.

The features of each of these orders are as follows:

- a) the generally established procedure of taxation.

This order has the right to choose both legal entities-agricultural producers and peasant (farm) farms.

The application of this procedure provides for the payment of all types of taxes:

- corporate income tax at the rate of 10% provided that the land is the main means of production;
- individual income tax;
- value added tax at the rate;
- social tax;
- land tax;
- vehicle tax;
- property tax.

- b) a special tax regime for legal entities – producers of agricultural products.

This regime provides for a special procedure of payments to the budget on the basis of a patent. The calculation of the patent value includes: VAT, social tax, corporate income tax, land tax, property tax, vehicle tax. When calculating the cost of a patent the amount of taxes payable to the budget was reduced by 80 percent (5 times).

- c) special tax regime for peasant (farm) farms.

This regime provided for a special procedure for payments to the budget on the basis of payment of the single land tax (SLT) and applied to the activities of peasant (farm) farms in the presence of land plots on the right of private property and (or) on the right to land use. The unified land tax was calculated at the rate of 0.1 % of the estimated value of the land plot.

Peasant farms were exempted from five types of taxes when paying taxes: individual income tax, VAT, land tax, transport tax and property tax. Benefits on taxes on transport and property are provided according to the norms established by the Government of the Republic of Kazakhstan.

The new tax code of Kazakhstan was developed in accordance with the address to the people of Kazakhstan dated February 6, 2008 "improving the welfare of citizens of Kazakhstan – the main goal of state policy".

Some changes also affected the taxation regime of agricultural producers.

Special tax regime for peasant farms:

- changed the rate of single land tax for the calculation of tax on arable land - introduced difficult-progressive scale of 0.1 % - 0.5 % depending on the area of land;
- possible representation of the calculation of the current payment of the single land tax;

- revised in the direction of increasing the period of payment of the single land tax, social tax, PIT at source, mandatory pension contribution, social contributions and individual payments (November 10, April 10);
- revised in the direction of increasing the deadline for submission of the Declaration for the single land tax payers. At the same time, this Declaration will also include the estimated amount of fees for emissions into the environment, the use of water resources of surface sources

Special tax regime for legal entities-producers of agricultural products and rural consumer cooperatives:

- a special tax regime which previously applied only to legal entities-producers of agricultural products is also provided for rural consumer cooperatives whose members are exclusively peasant or farm enterprises as well as cooperatives whose income from agricultural activities is at least 90 %;
- the estimated amounts of VAT, social, land taxes, property taxes, vehicles, fees for the use of land will be subject to a reduction of 70 percent;
- in addition to the previous restrictions on the use of the special tax regime a provision has been introduced according to which the special tax regime is also not entitled to apply legal entities in which the share of participation of other legal entities is more than 25 %, as well as legal entities in which the founder is also the founder of another legal entity;
 - calculation, payment of the above taxes and fees within the special tax regime and submission of tax reporting on them is made in the generally established order;
 - the provision providing for granting a patent has been abolished.

Application of this order of taxation allowed bringing the share of taxes and payments to the budget in the total gross domestic product of agriculture of Kazakhstan to 5% with the share of taxes in all sectors of the economy 19.4%. Thus over the period 2003-2016 there was a decrease of specific weight according to the following types of tax revenues: value added tax, from 21.7% to 16.4%, the corporate income tax from 9.6% to 3.3%, social tax of 28.0% to 2%.

The introduction of special and simplified tax regimes for agricultural producers has significantly reduced the amount of debt of agricultural producers on tax payments to the budget. Thus in the structure of the debt of agricultural enterprises the share of tax liabilities decreased from 6.2% in 2005 to 0.7% in 2016. At the same time the total amount of taxes paid for the period from 2003 to 2016 increased from 7 billion tenge to 33.6 billion tenge that is almost 5 times. It should be noted that the tax burden in the country by economic sectors varies significantly. The analysis of the paid amounts of taxes and fees to the budget for taxpayers subject to national monitoring shows that the tax burden ratio on average for enterprises producing crude oil and natural gas is 29.8% and for economic entities engaged in trade in petroleum products – 5.4%. In turn the tax burden for the second-tier banks amounted to an average of 9%, and for audit and insurance companies – 28.7%. The uneven tax burden does not allow for full diversification of the economy and support those segments of the real economy that should develop in the market conditions. Therefore in order to improve the economic efficiency of the tax system it is advisable to provide in the Tax code systemic measures to stimulate the production and sale of goods, the performance of works with high added value. This will have an impact to some extent on improving the efficiency of the use of the mechanism of reimbursement of value added tax at a zero rate.

4. Experiments

In order to respect the interests of both the state and the taxpayer it is necessary to set a limit of tax exemptions. The researchers note that the size of tax exemptions or the severity of taxation is determined by the share of tax exemptions in income. The study of the dynamics of taxation and its consequences in agriculture in a number of studies, as well as the opinion of a number of foreign scientists suggests that the severity of the amount of all tax exemptions in the amount of up to 20% to gross income stimulates expanded reproduction, from 25 to 50% - provides simple reproduction, more than 50% causes the curtailment of production.

Based on the above it can be concluded that the increase in the tax burden for agricultural producers along with the increase in the cost of production will have a negative impact on the results of financial and economic activities of agricultural enterprises.

To assess the consequences of reducing the tax burden on agricultural producers you can use the method of imposing different amounts of tax burden on the results of financial and economic activities of the actually existing agricultural enterprises of Akmola region belonging to three types as shown at the Table 1 (large, medium, small farms).

Table 1. Share of taxes to net income in farms of Akmola region

Farms	Gross income		Cost		Net income thousand tenge	Tax burden		
	Total, thousand tenge	from 1 ha, tenge	Total, thousand tenge	from 1 ha, tenge		Total, thousand tenge	from 1 ha, tenge	Net income, %
Large-scale farming	182 611	4,58	167 708	4,21	14 903	3 726	0,09	25,0
Average farming	258 147	8,23	247 512	7,88	10635	2807	0,09	26,4
Small farming	133 244	12,05	79 946	7,23	53298	3 469	0,31	6,5

Source: developed on the data's of the Tax Committee of Akmola region

1) A large farm with 39.9 thousand hectares of grain crops which also applies a special tax regime on the basis of a patent received a net income of 14 903 thousand tenge and the share of taxes to net income was 25%.

Calculations show that in the application of the same regime on the basis of a patent but with a decrease in the amount of taxes to the budget by 50% the farm would receive net income in the amount of 16,766 thousand tenge and the share of taxes to net income would be 11.1%. When applying the same mode on the basis of a patent but with a decrease in the amount of taxes to the budget by 80% the economy would receive a net income in the amount of 15648,2 thousand tenge and the share of taxes to net income in this case would have amounted to 4.7%.

2) The average farm which has more than 31.3 thousand hectares of grain crops applying in the calculation of taxes to the budget a special tax regime on the basis of the patent received net income in the amount of 10635.0 thousand tenge and the share of taxes to net income amounted to 26.4%. Calculations show that in the application of the same regime on the basis of a patent but with a decrease in the amount of taxes to the budget by 50% the farm would receive net income in the amount of 12038.5 thousand tenge and the share of taxes to net income would be 13.2%. In applying the same regime on the basis of a patent but with a decrease in the amount of taxes to the budget by 80% the farm would receive net income in the amount of 11196.4 thousand tenge and the share of taxes to net income would be 5.0%.

3) Small-scale economy with the area of grain crops of 11.1 hectares also applies in calculations with the budget the special tax regime on the basis of the patent. The farm received net income in the amount of 53,298 thousand tenge and the share of taxes to net income was 6.5%. Calculations show that in the application of the same regime on the basis of a patent but with a decrease in the amount of taxes to the budget by 50% the farm would receive net income in the amount of 55032.5 thousand tenge and the share of taxes to net income would be 3.2%. In applying the same regime on the basis of a patent but with a decrease in the amount of taxes to the budget by 80% the farm would receive net income in the amount of 53991.8 thousand tenge and the share of taxes to net income would be 1.3% (table 2).

Table 2. Assessment of the impact of the reduction of the tax burden on agricultural producers

Farms	Net income, thousand tenge		Tax burden			
			Total, thousand tenge		Net income, %	
	50% tax reduction	80% tax reduction	50% tax reduction	80% tax reduction	50% tax reduction	80% tax reduction
Large-scale farming	167766 (14 903+1863)	15648,2 (14 903+745,2)	1863 (3 726*50%)	745,2 (3 726*20%)	11,1	4,7
Average farming	12038,5 (10635+1403,5)	11196,4 (10635+561,4)	1403,5 (2807*50%)	561,4 (2807*20%)	13,2	5,0
Small farming	55032,5 (53298+1734,5)	53991,8 (53298+693,8)	1734,5 (3 469*50%)	693,8 (3 469*20%)	3,2	1,3

Source: compiled and calculated by authors

One of the main problems of enterprises for processing agricultural raw materials is the low competitiveness of domestic products. As you know the basis of competitiveness of any product is a combination of low price and high quality. The high price level of products of Kazakhstan processing enterprises is affected by the increased rates of bank loans, utilities and transport services as well as the current tax system especially VAT (Yakimova 2016).

In matters of competitiveness in price domestic agricultural products are significantly inferior to foreign analogues due to the fact that in other countries VAT rates for production, processing and sale of agricultural products are reduced compared to other sectors (Shulyatieva 2011).

The tax code of the Republic of Kazakhstan does not provide for tax benefits for agricultural enterprises for processing of agricultural products. Taking into account the current structure of agricultural production by types of agricultural formations processing enterprises buy up to 90% of raw materials in peasant (farmer) and personal subsidiary farms that are not VAT payers. At the same time the cost of raw materials in the total cost of finished products is on average 50%. As a result the processing companies cannot count the amount of VAT on the cost of purchased raw materials. All this leads to an increase in taxes, higher prices of products and ultimately to a decrease in its competitiveness, diversion of working capital. It is necessary to go to the tax relief of domestic processing enterprises i.e. to transfer these enterprises to the payment of taxes under a special tax regime, to revise the current system of VAT taxation (Kamenova 2012).

Tax policy in agriculture should be aimed at solving diverse problems and should not be as it is sometimes represented only a tool for subsidizing the sector. There is a need for basic measures to ensure the sustainable development of agricultural production.

Conclusion

Thus the system of budgetary methods of regulation along with direct public expenditures in the form of state subsidies should assume indirect financial methods – taxes which at optimal forms and sizes (rates) are more effective and less stimulate inflation (Aimurzina 2015). In addition it is recognized that taxes directly affect the economic growth of farms.

At present new trends in the world agricultural economy and demography are emerging, integration processes in the regions have received real development, and global climate changes are taking place. Kazakhstan joined the world trade organization. In addition the insufficient level of labor productivity in the industry the imperfection of the technologies used, small-scale production do not allow to conduct agricultural production on an intensive basis, thereby ensuring the most complete use of material, labor and other resources, to comply with environmental requirements. These factors reduce the competitiveness of the domestic agricultural sector which in the WTO can lead to the dominance of imports of foreign products, the displacement of local producers from markets. In this regard objective conditions require intensive work to improve the system of tax administration and the rational use of tax revenues for the economic development of the country and the growth of people's welfare.

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