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The Taxation of Agriculture in the Republic of Serbia as a Factor of Development of Organic Agriculture

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Received: 18 March 2020; Accepted: 10 April 2020; Published: 17 April 2020



Abstract: Agricultural activity is very important for every country that strives to create a stimulating, stable, abundant, sustainable and equal business environment for all market participants. By striving for sustainable economic development and growth, as well as preservation of the ecosystem, organic agricultural production aims to produce high-quality food. Within the socio-economic space, the role of the state as a regulator of production and market relations is indispensable. The state often uses fiscal policy as an instrument for the regulation of relations in the sphere of production and trade. The level of the tax burden is of vital importance for achieving a sustainable level of agricultural development. From the aspect of the Serbian economy, the taxation of agriculture in the future period must be based on a system of tax incentives for organic production. In the long run, this can increase the volume of organic production and the use of healthy food in human nutrition.

Keywords: agriculture; organic production; land; taxation; tax incentives; income; revenue; property

1. Introduction

Agricultural production emerged with the onset of human society. It has existed in the past and will exist in the future; it is the precondition for the biological survival of the human community and the determinant of growth and development of a society. The process of agricultural activity has not fundamentally changed throughout the history of its development; the changes have been imperceptible. Yet, agricultural activity has matured in terms of tools and human knowledge and progress has been made in the “utilization of nature”; and this spontaneously through the human community formation processes [1].

Agricultural stakeholders use the land as a factor of production. Excessive exploitation of the land may have negative consequences accompanied by a decline in land fertility and crop yields [2]. This shows that the land is a production input with a fixed value and cannot be increased. Contrary to the supply, demand for land is a category derived from the demand for goods; that is, goods produced on that land as a factor of production [3,4].

Agricultural activity is performed by a vast number of stakeholders, of unequal economic power, as well as of unequal production conditions. Accordingly, agricultural activity can be organized in the form of individual agricultural production, individual farms and agricultural companies [5]. Regardless of the organization, agriculture consists of conventional and organic production. Organic production is “friendly” towards the natural resources and the environment, thus becoming a general interest of the economy and social community. Under such conditions, of utmost importance is the role

of the state, which has a task to create a stimulating, stable, yielding, sustainable and equal business environment for all market participants [6].

From the aspect of agricultural activity, the role of the state is very important, whether it be regulating economic relations or creating institutional frameworks for the behavior of the stakeholders of this activity. As a regulator of various social processes, the state has a significant role in the sphere of taxation, thus establishing the market balance among agricultural producers. In an attempt to regulate its tax system most simply and comprehensively, without hindering the market space, the state must at the same time achieve fiscal, political, economic, social and other goals through the taxation of agriculture. The scope of the tax burden on agriculture as an economic activity is of vital importance for achieving a sustainable level of development of this industry. Therefore, the taxation of agriculture must be approached with full respect for the objectives and economic interests of the holders of this activity.

This requires an active role of the economic and political authorities that reflects in the application of the necessary regulatory instruments in the process of establishing the necessary balance in the agricultural market. Within the economic policy of taxation, the state plays the roles of a regulator in the distribution of national income, allocator of funds, a stabilizer of conjuncture oscillations and a catalyst of economic growth [7,8].

The article aims to analyze the current situation through the analysis of the existing norms regulating the taxation of agriculture in the Republic of Serbia *de lege lata*, and to propose measures for its improvement *de lege ferenda*, so that organic agricultural production would receive a special tax treatment.

The basic hypothesis of our research is based on the premise that the Serbian legislature, through the tax system, treats all forms of agricultural activity identically, thus not contributing to the lasting and long-term growth of organic agricultural production. Organic production growth can only be achieved by measures that improve the efficiency of resource allocation, which is one of the basic assumptions of economic growth. In this regard, the state is tasked with creating a better institutional environment for doing business, to accelerate the market allocation. To confirm the aforementioned hypothesis, the article will analyze the taxes imposed on farmers.

2. Organic Agricultural Production in the Republic of Serbia

2.1. The Share of Organic Production in Total Agricultural Production

Agricultural production refers to a process of production of plant and animal products on agricultural land. Within the Serbian classification of economic activities, agriculture comprises the cultivation of crops and plants and animal husbandry, as well as organic production and cultivation of genetically modified plants and animals [9]. Based on the above definition, agricultural production can be classified into plant and livestock production. Plant production includes crop growing, vegetable growing, fruit growing and viticulture, while livestock production includes cattle farming, pig farming, sheep farming, poultry farming, cuniculture, goat farming, fish farming, beekeeping, etc.

Concerning the technological process used and other specific features of plant and livestock production, the agricultural production process consists of conventional (classic) and organic production. Conventional agriculture is based on the maximization of yield per unit of agricultural land. Maximization of yield requires large quantities of non-renewable natural resources and energy, as well as the use of different chemicals. The results of such agricultural production are high yields, albeit accompanied by an increasing use of non-renewable natural resources and degradation of land, water and air.

Organic agriculture developed in reaction to the increasing environmental degradation, deterioration of food quality and the growing threat to the health of the human population [6]. Organic agriculture is aimed at producing high-quality food while developing sustainable agriculture through the conservation of the ecosystem and increasing soil fertility. This implies legal regulation

with the fulfillment of precisely defined conditions, as follows: isolation of land parcels, livestock farms and processing facilities from possible pollution sources; the adequate quality of irrigation water; coordinated development of plant and livestock production; and qualification of experts and producers for organic agriculture with the obligation of permanent innovation of knowledge [6]. Organic agriculture implies the use of natural fertilizers in the production process, with the exclusion of the use of pesticides, herbicides and artificial fertilizers. Protection in organic plant production is based on preventive agro-technical and hygiene measures, and in the case when diseases and pests cannot be suppressed preventively, biological protection agents are used.

From the perspective of the Republic of Serbia, agricultural production is an important factor in economic development. The total number of agricultural holdings in the Republic of Serbia in 2012 amounted to 631,552 farms, and their average economic size was 5939 euros [10]. Its development and importance have been especially intensified during the last years, through the development of an institutional framework for organic production. Within the Serbian normative solutions, organic production is the production of agricultural and other products that is based on the use of organic production methods in all phases of production, through the application of crop rotation, green manure, compost and biological insect control, but which excludes the use of genetically modified organisms and products that consist of or are deriving from genetically modified organisms, as well as the use of ionizing radiation [11]. Organic production includes organic plant and livestock production methods.

The Serbian production flows can be tracked by applying the annual index of agricultural production, which reflects changes in the volume of agricultural production at the level of annual periodicity. The calculation of the agricultural production index is based on the data on agricultural production in 2013 (basic period) and in 2014, which are presented in quantitative form. The agricultural production index for 2014 shows the growth of the physical volume of agricultural production compared to 2013 (Table 1) by slightly less than 2%. This growth is also visible in plant crops. Plant production in 2014 increased by just less than six percent compared to the previous year. If we analyze the livestock production flows, it is noticeable that no positive trends were achieved as were in plant production. Positive growth trends in the physical volume of agricultural production in 2014 were achieved only in pig, cattle and sheep production, while the production of other livestock products remained at the same level or even decreased, as in beekeeping.

Table 1. Agricultural production indices, 2014/2013 [12,13].

Plant Production (1, 2, 3)	105.59
1. Crop growing and vegetable growing (total)	111.85
- Grains	119.86
- Industrial plants	117.81
- Vegetables	82.99
- Forage (fodder) plants	104.60
2. Fruit growing	79.54
3. Viticulture	72.78
Animal husbandry (1+2+3+4+5)	100.39
1. Cattle farming	100.8
2. Pig farming	102.9
3. Sheep farming	108.2
4. Poultry farming	96.1
5. Beekeeping	51.24
Agricultural production in total	101.98

Organic production accounts for around 0.3% of total agricultural production. The arable land under organic production (Table 2) is mostly used for the production of fruits, grains, industrial and fodder plants, and the least used for the production of medicinal and aromatic plants.

Table 2. Arable land under organic plant production (in hectares) [14].

Organic Plant Production	2017	2018
Grains	3661.7	3613.6
Industrial Plants	2290.5	1961.8
Vegetables	2300	1995
Fodder Plants	1210.9	1336.5
Fruits	4055.9	5883.4
Medicinal and Aromatic Plants	1146	1934
Other	3112	5356

According to the data for 2017 (Table 3), of the total organic livestock production, small and large livestock was the most represented with a total of 78%, while poultry accounted for about 12% and beekeeping for 10%.

Table 3. Organic livestock production [14].

Organic Livestock Production	Bees	Laying Hens	Cattle	Goats	Horses	Donkeys	Pigs	Sheep
2017	2307 beehives	4415	3094 livestock units	2048	177	47	87	4665

2.2. Organic Farming Market

In 2014, the European organic products market grew by approximately 7.6% compared to the previous year and amounted to over 26 billion euros. Consumers in the European Union spent the most money on organic food—around 24 billion euros—where Germany was leading with a share of 30% of retail sales, followed by France with a share of 18%, the United Kingdom with a share of 9% and Italy with a share of 8% [15]. In terms of value, the German market share was 7.9 billion euros, the French market share was 4.8 billion euros, the United Kingdom's market share was 2.3 billion euros and Italy's market share was 2.1 billion euros. On a global scale, the United States has the largest organic products market, which amounts to 27.1 billion euros [16]. In 2014, the country with the highest per-capita organic consumption was Switzerland with 221 euros, followed by Luxembourg, Denmark, Sweden, Liechtenstein, Austria and Germany. In 2011, the organic food share of the total food market was the highest in Denmark with 7.6%, followed by Switzerland with 7.1% and Austria with 6.5% [15].

In contrast to the European Union market, the Serbian organic products market is small and underdeveloped, with a pronounced upward trend when observed through the increase in the number of producers involved in organic production. In 2010, the number of organic producers was 137, and in 2014 it amounted to 1867 registered entities (Table 4). Certain differences are noticeable in domestic, local and foreign markets. The domestic local market is very unstable and uneven. In the local market, organic products are traded between local producers, small retail stores and consumers in green markets. At the national market level, the presence of large manufacturers, retail chains and large business entities that are import–export oriented, is noticeable. A certain number of domestic companies are successful in the placement of organic products in foreign markets; however, Serbia's potential in terms of production and export of organic products has not been sufficiently utilized. (Table 4).

Table 4. Producers of organic products [14,17].

Year	2010	2011	2012	2013	2014
Number of producers involved in organic production	137	323	1061	1281	1867

Organic production in Serbia is export-oriented and most of these products are placed in foreign markets. In 2012, the volume of exported organic products was 1,561,672.50 kg worth 3,740,801 euros, and in 2013 it was 7,101,301.24 kg worth 10,090,801.37 euros [17]. In 2016, the volume of organic product exports amounted to approximately 19 million euros. The most exported products are low-processed, namely, frozen raspberries—10.1 million euros; frozen blackberries—1.5 million euros; fresh organic apples—717,400 euros; apple concentrate—1.6 million euros; dried fruit—2.2 million euros; and purées made of cherries, blackberries, raspberries and plum—over 846,000 euros [18].

2.3. Trade Exchange of Organic Products between Serbia and the EU and CEFTA Countries

By signing the Stabilization and Association Agreement, Serbia has entered the process of accelerated adjustment to the EU rules. One of the elements of adjustment is the alignment of Serbia's agricultural policy with the common agricultural policy of the EU. For Serbia, this meant introducing the principle of economic efficiency in agriculture, especially through cost reductions and improvement of production conditions. In the case of Serbia, improving efficiency through the complete value chain of organic production requires large investments, i.e., significant public resources. The state must use taxes and other incentives in order to create a sustainable and competitive placement of organic products on the EU market.

The most important trade partner of Serbia is the European Union. In 2015, the volume of organic products in total Serbian export was 70.4%, it is 13,787,417 euros (Table 5). In 2018, the value of exported organic products was 27,419,347.71 euros [20]. The largest exports were in Germany—7,433,661.00 euros; the Netherlands—3,495,144.00 euros; Austria—3,077,104.00 euros; Italy—2,724,359.00 euros; France—1,897,039.00 euros; and Belgium—1,191,811.00 euros [20]. The structure of the exported organic products is dominated by raw products: fruits, cereals and vegetables; juices; herbs and spices; mushrooms; and industrial plants. Within this market, the most important destination for organic products from Serbia is Germany, which is a large organic food producer and large importer of these products. In addition to fruits and vegetables, organic protein crops, primarily soybeans used to feed organic livestock, are significant imported products in Germany; so, they can be significant export products for Serbian producers [17]. Import of meat into the European Union is restrictive because of a strictly regulated market, i.e., due to the fact that the production of organic meat and dairy products mainly depends on the production of cereals and oilseeds, which must have an organic origin.

Table 5. The share of export of organic products exports from Serbia to EU and CEFTA countries in 2015 [17,19].

Countries	%	Export Value
EU	70.4	13,787,417
CEFTA	1.0	195,519
Other	28.6	5,590,444
Total	100.0	19,573,380

The second most important Serbian foreign trade partner is the CEFTA countries. With CEFTA countries Serbia has a surplus of USD 2,051.6 million in trade exchange at the beginning of 2020 [21]. A single free-trade market of about 30 million inhabitants, without customs and other fiscal duties, was formed by the countries of Central and Eastern Europe in 1992 in Krakow, with the signing of the Central European Free Trade Agreement (CEFTA). Members of CEFTA are Serbia, Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro as well as the United Nations Mission in Kosovo and Metohija UNMIK/Kosovo 1244. Under the CEFTA agreement, Serbia has a significant position in the foreign trade of agricultural products, which gives it the opportunity to increase competitiveness. However, due to the fact that market of the organic products is not developed within the CEFTA countries, the volume of trade of organic products is modest (around 1% in total export of Serbia). Inadequate foreign trade can be attributed to unresolved political issues.

As a consequence, CEFTA agreement does not lead to the desired level of exchange flows in recent years. So, in the coming period Serbia must implement measures that will contribute to the growth of productivity, quality of products, marketing activity, etc., which will overall contribute to growth in price competitiveness [22]. The competitive advantages, including tax incentives for domestic organic food production, can activate a significant proportion of unused resources in order to create the conditions for success in the CEFTA and EU markets.

3. Taxation of Agriculture in the Republic of Serbia

The Serbian tax system distinguishes agricultural companies and individual farms when taxing agriculture. In the sphere of taxation, agricultural legal entities have the same treatment as all other legal entities, and they fall under the corporate tax system, while individual farmers are natural persons, thus from the aspect of taxation, they fall under the individual income tax system [5]. The Serbian tax system makes no distinction between conventional and organic farming. The subjects within taxation of agricultural activities are individual income, corporate profits, added value and property.

3.1. Taxation of Agricultural Activity by Individual Income Tax

Individual income tax is paid by natural persons, including farmers, who generate income. This is a subjective tax that affects the overall income of a particular taxpayer [2,23]. Income represents the sum of taxable revenues generated in a calendar year. Taxable revenue means the difference between gross taxable revenue earned by a taxpayer and the expenses he/she had in generating and preserving it [24]. The payer of individual income tax is a resident of the Republic of Serbia, on the income earned in the territory of the Republic of Serbia or some other state [25]. Natural persons engaged in agricultural activity taxed by the individual income tax system are obliged, by the law, to determine and settle (pay) their tax liability for all forms of taxable revenues generated in a calendar year [2]. Following the law, the revenue from the agricultural activity is included in the taxable annual income.

3.1.1. Taxation of Agricultural Activity by the Tax on Revenue from Self-Employment

Revenue from self-employment means the revenue from a business, including agriculture and forestry activities, unless the tax on such revenue is paid on some other grounds following the law [26]. The taxable revenue from self-employment is the taxable profit. The taxable profit is determined in the tax balance sheet by adjusting the profit declared in the income statement drawn up in compliance with the regulations governing accounting for the taxpayer who is obligated to keep double-entry accounts, or in line with the regulation passed by the Minister responsible for finance if the taxpayer is keeping single-entry accounts [2,27]. The rate of tax on self-employment revenue is 10%.

The taxpayer of the revenue from self-employment based on the revenue from agriculture and forestry is a natural person—a holder of a family farm registered in the Register of Farms following the regulations governing this field [28]—who keeps account books following the law [29]. All this thus results in the two cumulative conditions that the natural person—the holder of the family farm—must fulfill in order to be registered in the Register of Farms and to have the status of an entrepreneur: (1) to be registered in the Register of Agricultural Households and (2) to keep account books [2]. If a natural person—a holder of a family farm—does not fulfill the abovementioned cumulative conditions, they will not have the status of an entrepreneur [2].

This means that a natural person who generates revenue from agricultural and forestry activities—that is, earns revenues from agricultural and forestry products [30], including a registered farm that does not have the status of an entrepreneur—is not obliged to keep the book of accounts and pay individual income tax. The mentioned category of natural persons is not considered a taxpayer concerning individual income tax but is obliged to pay contributions for pension insurance and healthcare insurance following the law regulating the system of compulsory pension and healthcare insurance, provided that it has applied for insurance based on performing an agricultural activity with the competent fund [2].

From the aforementioned legal solution, it is clear that the majority of farmers in the Republic of Serbia will not be obliged to pay individual income tax, which provides them with a privileged treatment from the aspect of income taxation. Privileged treatment of farmers' income taxation is very common, especially in less developed countries [31]. In this respect, the Republic of Croatia and Bosnia and Herzegovina have given a privileged position to farmers within their tax legal solutions [32,33]. From a tax point-of-view, the non-taxation of income generated by farmers is unfair. However, in conditions of underdevelopment of agriculture and significant migration of the agricultural workforce to industrial centers, incentive measures involving the non-payment of individual income tax by non-entrepreneurial farmers may contribute to the efficiency of the market allocation of economic resources.

3.1.2. Taxation of Agricultural Activity by the Salary Tax

An entrepreneur, thus also a natural person who performs agricultural activity as an entrepreneur, who pays tax on actual revenue from self-employment, may decide to pay personal earnings [34]. Personal earnings mean the monetary amount that an entrepreneur pays and records in its books of accounts as their monthly personal income increased by accompanying liabilities of the earnings. Salary means paid personal income of an entrepreneur determined following the law [35]. From the aspect of taxation, personal income of an entrepreneur also includes the premiums for all kinds of voluntary insurance, as well as contributions to the voluntary pension fund, which the employer pays for his/her employees—insured persons covered by voluntary insurance—in compliance with the law governing the voluntary insurance and voluntary pension funds and pension plans [36]. The payer of salary tax is a natural person who earns a salary. The base of the salary tax consists of the paid-out or actual earnings, reduced by the statutory non-taxable amount [37]. The salary is taxed at a rate of 10%. The salary taxation system provides for tax reliefs for entrepreneurs who employ a new employee in the form of the right to a refund of a part of the tax paid on the earnings of a newly employed person [2].

3.1.3. Taxation of Agricultural Activity by Tax on Other Revenues

Within the individual income tax system, from the aspect of one's work, other revenues are also revenues from the sale of agricultural and forest products and services, including revenues from the collection and sale of forest fruits and medicinal herbs, as well as revenues from the growing and sale of mushrooms, raising and sale of bee swarms (bees) and snails [38]. The taxable revenue realized by a natural person from the sale of agricultural and forest products and services, including also the revenue from collection and sale of forest fruits and medicinal herbs, as well as growing and sale of mushrooms, bee swarms (bees) and snails, consists of the gross revenue reduced by the standardized expenditures amounting to 90% [39]. A taxpayer is a natural person who generates these revenues.

Exceptionally, revenues from the sale of agricultural and forest products and services, also including revenues from the collection and sale of forest fruits and medicinal herbs, as well as from the growing and sale of mushrooms and raising and sale of bee swarms (bees) and snails, are not taxable if generated by the following natural persons: holders of farms; natural persons who pay contributions for compulsory social insurance according to the decision as the insured based on agricultural activity, following the law governing contributions for compulsory social insurance; and beneficiaries of agricultural pension [40]. The abovementioned exemption does not apply to the following natural persons: members of a family farm and farmers who are not insured based on agricultural activity, and who generate revenues from the sale of agricultural and forest products and services, [31] including also revenues from the collection and sale of forest fruits and medicinal herbs, as well as from growing and sale of mushrooms, bee swarms (bees) and snails; hence, in this sense they are the taxpayers. The tax rate on other revenues is 20%. Reduction of the tax base on other agricultural income is a good solution for several reasons [2]: First, due to its amount, it encourages the development of agriculture and leads to lower prices of agricultural products; secondly, it does not affect the behavior of the

farmers as it is not paid on actual income; and thirdly, it provides certainty in terms of the amount of tax liability. A problem may occur in terms of its static nature, and it is, therefore, necessary to periodically conduct its revaluation.

3.2. Taxation of Agricultural Activity by Corporate Profit Tax

In the sphere of taxation, agricultural legal entities are treated the same as all other legal entities, and they fall under the corporate profit tax system. A taxpayer of the corporate profit tax is a company or enterprise, or another legal entity founded to perform activities to gain profit. A taxpayer is also a cooperative and non-profit organization (legal entity not founded for generating a profit) that earns revenues by selling products on the market or providing services for a fee. A taxpayer is a resident of the Republic of Serbia who is subject to taxation of profit it generates in the territory of the Republic of Serbia and outside it [41]. A non-resident of the Republic of Serbia is also subject to taxation for any profit it generates through a permanent operating unit in the territory of the Republic of Serbia unless an international agreement for the avoidance of double taxation stipulates otherwise [42].

The corporate profit tax base is taxable profit. Taxable profit is determined in the tax balance sheet by adjusting the taxpayer's profit declared in the income statement, which has been drawn up in compliance with the International Accounting Standards, International Financial Reporting Standards, International Financial Reporting Standard for Small and Medium-Sized Entities and regulations governing accountancy [43]. The taxable profit of a taxpayer, who according to the regulations governing accounting is not applying the International Accounting Standards, International Financial Reporting Standards, International Financial Reporting Standard for Small and Medium-Sized Entities, is determined in the tax balance sheet by adjusting the taxpayer's profit, declared following the method of recognizing, measuring and estimating the revenues and expenditures prescribed by the Minister of Finance, in the manner provided by the law [44].

The corporate income tax rate is proportional and uniform and is 15%. Unless an international agreement for the avoidance of double taxation stipulates otherwise, withholding tax is charged and paid at the rate of 20% on the revenue earned by a non-resident legal entity from a resident legal entity following the law [45]. For the withholding tax for each taxpayer and for each revenue earned or paid out, the payer needs to calculate, withhold and pay into the prescribed accounts within three days from the day when the revenue was generated or paid [46].

3.3. Taxation of Agriculture by Value-Added Tax

The objects of value-added tax taxation are as follows: [47]

- the delivery of goods and providing of services (trade of goods and services) that a taxpayer carries out for a fee, within the scope of performing an activity;
- the import of goods.

A taxpayer of a value-added tax is a person, including a person without a head office or permanent residence in the Republic of Serbia, who independently performs the trade of goods and services, within the framework of his/her registered activity. From the aspect of taxation of farmers, one distinguishes individual farmers, entrepreneurial farmers and agricultural companies. An individual farmer is not a taxpayer of value-added tax.

An entrepreneurial farmer is a value-added taxpayer for the turnover of goods and services, namely: [48];

- by force of law—a farmer whose total turnover of goods and services in the previous 12 months is higher than 8,000,000.00 dinars
- by their option—in the case of the holder of a family farm registered in the Register of Farms, who has opted to have the status of an entrepreneur. This option is done by filing a tax return to the competent tax authority.

Therefore, persons who are owners of registered farms are the taxpayers of the value-added tax if they keep books of accounts and if the annual revenue from agricultural holding is higher than 8,000,000.00 dinars; that is, if they file a tax return themselves, thereby gaining the status of an entrepreneur.

Depending on the realized turnover of goods and services, agricultural companies are taxpayers of a value-added tax:

1. By force of law, namely: [49]
 - a person whose total turnover of goods and services, except the turnover of the equipment and facilities for the performance of business activities in the previous 12 months, is higher than 8,000,000.00 dinars;
 - a person who, when starting a business, estimates that over the next 12 months he/she will achieve a total turnover higher than 8,000,000.00 dinars.
2. By their option—persons who may opt to be in the value-added tax system (to be taxpayers).

The tax base applicable to the trade of goods and services is the amount of compensation (in money, objects or services) that a taxpayer receives or should receive for the goods delivered or services provided from the recipient of goods or services or a third party, including subsidies and other income, into which the value-added tax is not included [50].

Natural persons who are owners, tenants and other users of agricultural and forest land and natural persons who are, as holders, or members of the farm, registered in the Register of Farms following a regulation that governs the registration of farms, are entitled to reimbursement based on value-added tax [51]. The reimbursement is granted to farmers who perform the trade of agricultural and forest products as well as agricultural services to taxpayers. If the farmers perform the trade of goods and services to the taxpayers, the taxpayer is obliged to calculate the value-added tax reimbursement at the amount of 8% of the value of the received goods and services, and issue an accounting document, as well as to pay the farmers the calculated reimbursement in money (by making payment to a current or savings account) [52]. The taxpayers of the value-added tax have the right to deduct the amount of the reimbursement as a preliminary tax, on condition that they have paid the value-added tax reimbursement and the value of the received goods and services to the farmer [53].

Providing the farmers with the opportunity to exercise the right to reimbursement based on value-added tax may contribute to a better allocation of agricultural resources. Specifically, the reimbursement indirectly compensates farmers for the costs they incur when paying taxes on the acquisition of various production inputs. By reducing production costs based on reimbursement of value-added tax, the competitive position of these farmers in the agricultural market increases.

In terms of agricultural taxation, the value-added tax is not paid on the trade of the following [54]:

- agricultural land, as well as the letting of such land;
- facilities for agricultural activities, except for the first transfer of the right of disposal over newly constructed building facilities or economically divisible units within such buildings and the first transfer of equity stake in the newly constructed building facilities or economically divisible units within these facilities, as well as the trade of buildings and economically divisible units within these buildings, including equity stakes in these goods, in cases when the contract under which the trade of those goods is conducted, which was concluded between the value-added taxpayers, stipulates that value-added tax will be calculated for this trade, provided that the acquirer may fully deduct the calculated value-added tax as preliminary tax.

3.4. Taxation of Agriculture by Property Taxes

The Serbian tax system distinguishes three forms of property taxes: property tax, inheritance and gift tax and absolute rights transfer tax.

3.4.1. Taxation of Agriculture by Property Tax

Property tax is levied on a property in its static form. The subject of taxation is certain rights relating to real estate. The basis of taxation is the ownership right or the right of ownership of land, but this may also include other rights. When in addition to ownership right some other right also applies to a real estate, property tax is paid on that right, not on ownership right [55]. Real estate is understood to mean the following: land, residential and business buildings, apartments, office premises, garages and other buildings or their parts [56].

The taxpayer of the property tax is a legal entity and a natural person who has some of the rights to a real estate in the territory of the Republic of Serbia. The property tax base is determined differently, depending on whether the taxpayer keeps or does not keep books of accounts. The property tax base for real estate of the taxpayer who does not keep books of accounts is the real estate value determined following the Property Tax Law [57]. The property tax for the taxpayer who does not keep books of accounts is determined by the decision of the local self-government unit's body.

The property tax base for real estate of the taxpayer who keeps books of accounts and whose value in the account books is stated using the fair value method following the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and adopted accounting policies is the fair value stated on the last day of the fiscal year of the taxpayer in the current year [31]. The property tax base for real estate of the taxpayer, whose value in the account books is not stated using the fair value method, for undeveloped land—consists of the land value; for other real estate—the value of the buildings increases due to the value of associated land. The taxpayer who keeps books of accounts determines the property tax by self-taxation.

The Serbian legislator intends that the property tax base for agricultural land should be its market value. Taking into account the situation on the real estate market in the Republic of Serbia, we believe that a large number of local self-government units will be faced with the lack of turnover data and that the income from taxation of agricultural land will not achieve the desired fiscal objective of the legislator [58]. In this regard, smaller and underdeveloped local self-government units will have an additional problem.

The tax rates for property taxes are fixed by the local self-government unit assembly; however, the legislator has limited their maximum amounts. For agricultural land, the central government has stipulated the maximum permissible rate (up to 0.3%), and within this limit, local self-government units independently determine its exact amount [59].

The legislator has stipulated many tax reliefs that in the coming period could be a strong incentive for taxpayers to reclaim agricultural and forest land [60].

From the aspect of the taxation of agriculture, property tax is not payable on the right to real estate, namely:

- reclaimed agricultural and forest land—five years from the commencement of reclamation;
- aquatic land and water facilities registered in the cadastre of water resources or water facilities register, except facilities for fish farming (fish farms);
- buildings of an individual income taxpayer for revenue generated from agriculture and forestry or a taxpayer whose registered predominant activity is agriculture, intended and used solely for primary agricultural production;
- on the total tax base of a taxpayer, which for all his/her real estate in that territory is not greater than 400,000.00 dinars.

The privileged treatment of agricultural land, in terms of property tax, is also applied in the tax systems of the Republic of Montenegro and the Republic of Srpska. For real estate owned or used by a person entered in the Register of Agricultural Producers, a legal person or an entrepreneur engaged in the production, finishing, packaging or processing of agricultural products produced in Montenegro, which are used for carrying out this activity, the tax rate may be reduced by up to 90% of the tax

liability with the tax rate set by law [61]. In the Republic of Srpska, cultivated agricultural land and real estate serving for own agricultural production are exempted from paying property tax [62].

3.4.2. Taxation of Agriculture by Inheritance or Gift Tax

Property can be transferred without compensation between living persons (*inter vivos*), as well as in the case of death (*causa mortis*). Between living people, the property is transferred without compensation by way of gift, while in the case of death, the property is transferred by way of inheritance. In terms of the taxation of agriculture, inheritance and gift tax is paid on the total area of a real estate on which certain rights are constituted, which are inherited by heirs, or received by donees as a gift [63].

The taxpayer of inheritance and gift tax is a resident and non-resident of the Republic of Serbia who inherits or receives as a gift some right to real estate in the territory of the Republic of Serbia. The inheritance tax base is the market value of the inherited property, reduced by debts, costs and other encumbrances the taxpayer is obliged to pay or settle in some other way from the inherited property on the date of the onset of tax liability [64]. The gift tax base is the market value of the property received as a gift, on the date of the onset of tax liability, which is determined by the tax authority [65].

Inheritance and gift tax are paid by the taxpayers who, concerning a decedent or donor, are [66]:

- in the second order of succession according to the legal order of succession—at the rate of 1.5%;
- in the third and any subsequent order of succession, or the taxpayers that are unrelated to the decedent or donor—at the rate of 2.5%.

In terms of the taxation of agriculture, the legislator has foreseen that the inheritance and gift tax is not payable by the following [67]:

- an heir in the first order of succession, decedent's spouse and parent and a donee in the first order of succession and donor's spouse;
- a farmer heir or donee in the second order of succession who inherits or receives as a gift the property that serves him/her for agricultural purposes, if he/she has lived with the decedent or donor in the same household for at least one year before the decedent's death or before receiving the gift; if the mentioned farmer heir or donee in the second order of succession who inherits or receives as a gift the property that serves him/her for agricultural purposes changes his/her occupation before the expiry of five years from the date on which he/she inherited or received as a gift the property concerned, he/she is obliged to notify the competent tax authority of the change of occupation within 30 days from the date of the change; in this case, the heir or donee pays the inheritance and gift tax at the rate of 1.5%.
- a donee—on the property relinquished to him/her in the probate proceedings, which he/she would have received had the heir or donor waived inheritance;
- property jointly acquired by the spouses during their marriage, which is divided between former spouses, whereby they regulate their property relations regarding divorce.

3.4.3. Taxation of Agriculture by Absolute Rights Transfer Tax

In terms of the taxation of agriculture, the absolute rights transfer tax is paid on the transfer against compensation of the real estate ownership rights. The following are exempted from the absolute rights transfer taxation [68]:

- transfer or acquisition of the absolute right to which value-added tax is paid, following the law governing value-added tax;
- acquisition of the ownership right to separate parts of real estate by the division of co-ownership between co-owners in proportion to their co-owned parts on the date of division;
- absolute rights transfer based on expropriation.

The taxpayers of the absolute rights transfer tax are the following: the seller or transferor of the mentioned rights; the person to which the absolute right is transferred; the person who is the

taxpayer of every right that is transferred—when an absolute right is transferred based on a contract of exchange [69]. The base of the absolute rights transfer tax is the contracted price or the market value of the transferred right. The absolute rights transfer tax is paid at the rate of 2.5%.

In terms of agricultural taxation, the absolute right transfer tax is not paid on the following [70]:

- land exchange by which at least one legal entity or a natural person whose predominant activity or occupation is agriculture, acquires agricultural or forest land for its grouping;
- when the property right to real estate is transferred to the provider of lifelong care, the spouse or a person who is in the first order of succession concerning the recipient of care, on the part of the real estate the provider of care would have inherited on the contract conclusion date in compliance with the law;
- the sale of a legal entity as adjudicated as bankrupt—in proportion to the participation of social or state capital in the total capital of the legal entity concerned;
- property acquisition or on the realization of compensation under the law governing the return of seized property and compensation for seized property, or the law governing return (restitution) of property to churches and religious communities;
- acquisition of the right to the land based on commission.

4. Tax System as a Growth Factor of Organic Production

A production function expresses the relationship between factors of production that result in final products. The ideal production volume implies an optimal combination of factors of production, economic efficiency and optimal balance in the market of goods and services [71]. In such conditions, any change in input price will affect the equilibrium market movements. Organic production in Serbia is characterized by rising costs of production factors. The high costs of organic production are resulting from acquisition of quality seed, quality control, certification, greater engagement of the workforce, additional costs of land preparation and other costs. As a result of the rising costs of domestic production, an increase in the price of organic primary and processed products is manifested in the organic products market, which is much higher than the price of conventional products. In addition to the aforementioned, due to the lack of competitiveness of domestic producers, prices of most imported processed organic products are lower than those of domestic producers, which additionally contributes to the inadequate allocation of economic resources.

The factor of growing production costs is also evident through the effect of organic production taxation. The tax burden represents an additional cost for organic food producers, which directly affects the increase in the price of these products. The increase in production costs due to distortions generated by taxes and contributions represents a decrease in the production efficiency [71] of organic production within the national economy, which further reduces their competitiveness concerning foreign producers with more efficient production. Faced with the inability to optimize their production, domestic producers give up on creating a production process based on organic production and direct the allocation of their resources to conventional production. The decrease in production efficiency and competitiveness of domestic organic production can be accompanied by a decrease in employment in the country, which means that a part of the human resources remains unused in the production process, [72] which in the long run may cause a slowdown in the gross domestic product movement.

In addition to striving for economic growth and fiscal welfare, the state must also take into account the non-fiscal interests and citizens' demands for maintaining a healthy environment, nutrition and well-being. Therefore, in addition to subsidies and grants, the state must also implement a system of tax incentives to stimulate organic agriculture.

The Serbian tax system does not recognize the difference between conventional and organic agricultural production; that is, it does not differentiate between a healthy environment, a healthy diet and fiscal goals. The taxation system must substantially include measures and instruments for reducing the cost of organic production. Reducing the cost of organic products through a system of tax

incentives and exemptions necessarily leads to increased production efficiency and competitiveness. A lower tax burden on the labor costs of organic production employees, acquisition of quality seed, quality control and certification, cost of land preparation and other costs, produces an increase in the competitive position of organic producers. The positive effects of tax incentives can help reduce the gray area related to turnover and employees in organic production and its conversion into legal flows. In the long run, the system of tax incentives leads to the improvement of the position of persons working in the organic production system, but are not registered for compulsory social insurance, which will contribute to optimizing the balance in the labor market.

5. Conclusions

The Republic of Serbia has favorable land and climate conditions for organic production. The importance of this production is reflected in the fact that it enables better use of areas with less favorable land and climate conditions, including also lands of poor physical, chemical and other properties. Organic production can also be a significant source of income and employment opportunities for people, especially in small family farms. In this sense, the state must create a better institutional environment for doing business, to ensure a better allocation of economic resources. To achieve this goal, the state has to play an active role in the process of implementation of the taxation system, as a regulator of the production efficiency of organic farming within the national economy.

Through the taxation system, the Serbian legislator must strengthen the competitiveness and production capacity of organic producers, which will contribute to the lasting and long-term growth of this activity, and consequently to the economic growth and development of the country. To achieve a desirable level of development of organic production in the Republic of Serbia, it is necessary to implement additional measures through the system of tax incentives for organic production. In this way, through the taxation system, the positive effect in terms of raising the level of healthy food use could be achieved. Tax incentive measures can be implemented through the system of:

- a reduction of the fiscal burden in self-employment revenue taxes and corporate profit taxes;
- exemption from the taxation on the turnover of organic products in value-added tax;
- exemption from the taxation on the turnover of products intended for organic production in value-added tax.

Author Contributions: All authors have contributed equally to the idea, creation, research, and supervision of all activities regarding this manuscript. All authors have read and agreed to the published version of the manuscript.

Funding: This research was funded by the authors themselves.

Conflicts of Interest: The authors declare no conflict of interest.

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