

AGRICULTURE IN THE VAT SYSTEM

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Abstract: *The accounting of our rural households is becoming more and more prevalent and common. In the new system of registration of agricultural households, where the commercial ones have a completely different treatment, this question becomes even more popular. Farms within the scope of VAT (value added tax) had to have appropriate records in the past as well. Those were never massive or complex accounting and bookkeeping operations. With just a little bit more attention, you will surely have far more benefits from the efforts that you put in. Precisely for the above-mentioned reason, agricultural records of value added tax differ from tax records of other companies. First of all, the tax is calculated under a different rate, lowered by the amount of subsidies. Also, the paper will point out that certain agricultural enterprises are excluded from the system of value added tax because their income doesn't move in such high Rezonants, i.e. it is not large enough to be taxed. In order to give more detailed analysis of the problem, this paper will also analyze the income which can be taxed and how high it is. Legally speaking, there are some disagreements in the registration of VAT because in reality two or more companies work together and one of them is not a taxpayer, and the other one is. It is because of these disagreements that we see some drawbacks of accounting records but also the legal coverage of this matter. Furthermore, the main objective of this paper is to present the records of agricultural value added tax and to point out its main features. Although the goal of the paper is to give a detailed presentation, even a partial one will be enough, because it is hard to keep up with the constant legal and accounting changes in this area. The importance of monitoring and operating a small farm, and importance of this paper as well, lies in two reasons: First of all, bookkeeping is completely neglected on farms, and secondly, farmers do not recognize the benefits it brings because this is an additional activity which has no connection with the practical everyday work they do. During the writing of this paper, we used the combined methods of research (relevant methodology). This primarily refers to the research literature, financial and accounting methods, historical methods and other relevant general scientific methods (induction, deduction, synthesis).*

Keywords: *agriculture, value added tax (VAT), bookkeeping, rural households, farms.*

INTRODUCTION

The Agriculture is one of the most important activities, and therefore it is necessary to be familiar with it's the basic concepts, and see how to keep the books in agricultural production with particular emphasis on value added tax. Also in this paper, the concept of an agricultural producer will be explained in great detail because each producer may or may not be the payer of VAT.

This paper also defines a special procedure that allows farmers to register as VAT payers with the possibility of a lump-sum payment. The Law on Value Added Tax in Bosnia and Herzegovina, and its articles relating to agriculture, will contribute to better understanding of this subject.

The last part of the paper deals with the accounting records of VAT in agriculture with examples of procurement of agricultural products, agricultural products sales and purchase of agricultural products for further processing.

1. THE HYPOTHESIS, METHODOLOGY AND EMPIRICAL DATA

The subject of this paper in the context of testing the primary hypothesis (H1) is that *the records of agricultural value added tax are different from the same tax records in other companies*. The main motive for the analysis of the problem is to: thoroughly examine the records of agricultural value added tax using accounting methods and to point out that tax is calculated under a different rate, lowered by the amount of subsidies.

The other important research hypothesis (H2) is: that the shortcomings of accounting records and legal coverage of this matter, arise from the situation that two or more agricultural enterprises operate together, where one of them is not a taxpayer, and the other one is. The research based on literature and specific empirical research based primarily on examples of agricultural enterprises operating in Bosnia and Herzegovina and other developing countries, and by applying relevant research methodologies, hypotheses were confirmed. These findings are important for the practical application of the theoretical and methodological issues treated, i.e. records of agricultural value added tax and its essential characteristics.

2. VALUE ADDED TAX

Value added is calculated as the difference between the actual sales price and purchase price of goods sold, including the cost of materials and services. It is used for payment of salaries, wages and amortization, as well as to realize some profit. Profit, therefore equals to the difference between value added and wages, salaries and amortization.

In commercial and agricultural enterprises is very difficult to express the work as a result of human labor. It is manifested by providing appropriate services to consumers as users of the goods. Approximately, according to some authors, it can be expressed through the size of value added, in addition to expressing the size of the gross margin as sales price of commercial services, that is, through the value of goods sold. In practice, generally, the work of the commercial companies is expressed through the value of goods sold. The main reason for this is the simplicity and the inability (due to the nature of work) to accurately show the work of commercial enterprises in the same way as in the case of manufacturing companies (produced quantity of finished products for the market).

When we know what the added value is, it is very easy to conclude what the value added tax is. "The Value added tax, as the name suggests, is the tax on the increased value of the purchased goods or services. It is charged in each stage of the production or distribution through which the product passes from the producer to the final consumer. "The final consumer is, ultimately, the person who pays it. The methodology of VAT is illustrated in the example. It is shown in the table.

Table 1

The tax payer	Value Added Tax				
	cost price	selling price	added value	VAT	price with VAT
Forest keeper	0	500	500	42.5	542.5
Manufacturer	500	1200	700	59.5	1259.5
Retailer	1200	2000	800	67.5	2067.5
Consumer	-	-	-	169.5	-

3. AGRICULTURAL ACTIVITIES AND THE VAT SYSTEM

Agriculture is the economic sector, from which, directly or indirectly depends the biological survival of the population. In many countries, such as B&H, agriculture is the industry in which the majority of the population is employed. The system of VAT in relation to the turnover tax significantly differs in relation to the taxation of the overall agricultural

production, from procurement of agricultural equipment and materials, to the sale of agricultural products.

The Legal Act on VAT stipulates that the person who represents the household and performs agricultural or forestry activity for which the income tax is paid in accordance with the cadastral income of agricultural and forest land management, is not the taxpayer if the total cadastral income of all members of his household is lower than 15,000 KM. The term "household" marks a community which lives, earns and spends joint income. In Republic of Srpska, cadastral income is determined in the manner and procedure stipulated by The Law on Determination of the Cadastral Income, i.e. by The document on establishing the cadastral income of the land.

The cadastral income is defined as the average income acquired on land realized by the usual way of doing business in that particular area by producing crop and livestock, lowered by the average material costs of such production. The calculation of the cadastral income is done by the Republic Authority of Geodetic Affairs.

3.1. Categories of farmers

The status of various categories of individual agricultural producers is specified by the law and it is possible to distinguish three distinctive categories:

- The persons who manufacture and sell agricultural and forest products or provide services in this area, who are not registered as taxpayers through cadastral income, accordingly they can not get the approval of the Indirect Taxation Authority (ITA) which grants the right to lump sum VAT refund– these persons have the same status in the VAT system as other end consumers and all other citizens;
- The farmers who are registered as taxpayers by the cadastral income and who had not filed a request for voluntary registration, and whose cadastral income of all members of their household does not reach 15,000 KM – these farmers must get the official consent from the ITA, which grants the right to lump sum VAT refund;
- "Regular" VAT taxpayers who acquire this status by the official act of ITA if their cadastral income is 15.000 KM or more, or on the grounds of voluntary registration for VAT, regardless of the size of their cadastral income.

A special group of farmers in the VAT system is composed of legal and natural persons registered to perform some of the activities in the field of agriculture or forestry. Such persons (agricultural cooperatives, farms, fishponds, forestry enterprises), are considered as taxpayers if their taxable supply of goods and services exceeds or is expected to exceed the prescribed threshold of 50,000 KM, with all the rights and obligations that such a status implies. If they remain outside the VAT system (that is, if they do not realize the right to lump-sum refund), they shall have no obligation or right to incorporate VAT into the sales prices, nor to keep tax records and submit tax returns, they will also not be able to deduct the input tax which is paid upon purchases from taxpayers. Farmers who register as VAT payers have the same tax status as other registered taxpayers – they calculate the output tax and deduct input tax on purchased goods and services.

3.2. Special Tax

For farmers who are not registered as VAT payers, a special taxation procedure is provided. The aim of a special procedure is to leave farmers out of the VAT system, but allow them to compensate the tax paid at the inputs and to allow the customers of agricultural products to be entitled to deduct an input VAT.

This special procedure considerably deviates from the principles on which the VAT system is based. The essence of the procedure is to give farmers, who supply the goods or

services to a registered VAT payer, the right to increase the price of their product or service by a lump-sum fee of 5%. A person - registered VAT payer, to whom the farmer sells products or services with incorporated lump-sum compensation, adds that compensation by input tax in monthly VAT return.

In order to qualify for a lump-sum fee (and a buyer to deduct input tax), the farmer must get approval from the ITA for the calculation of lump sums. The approval will be given if the ITA submits evidence to the competent authority that the farmer receives income from agriculture and forestry, and that the goods or services are sold to registered VAT taxpayers. The condition that the goods are sold to registered VAT payers is strange, because a farmer can not calculate a lump-sum fee to a registered taxpayer if he does not have the approval of the ITA, and he can not get the approval if he does not sell the goods to a registered taxpayer.

3.3. Lump-sum compensation

A VAT taxpayer who purchases goods or services from a farmer is entitled to deduct a lump-sum fee as input tax, provided that the goods and services, with a lump-sum fee, are paid to the farmer and that he had issued the certificates of payment and receipt.

A farmer who sells goods and services to the end consumer does not calculate the output VAT, nor does he have the right to charge the lump-sum fee.

"A farmer who sells goods and services to the person who is not VAT payer does not have the right to add a lump-sum fee, nor does his customer have the right to deduct a lump-sum fee as input tax."

A farmer who did not receive the approval from the ITA, and sells goods and services to registered VAT taxpayers is not entitled to lump-sum compensation, nor does his customer have the right to deduct lump-sum fees as input tax.

The percentage of lump-sum fee is determined by the ITA before the end of the current year for the next year. VAT fee is determined by the net value of goods and services.

4. AGRICULTURAL PRODUCTION AND LAW ON VALUE ADDED TAX IN

B&H

In order to clear all uncertainties regarding the value added tax, when agricultural enterprises are concerned, we should pay attention to the Law on Value Added Tax which is defined and adopted in Bosnia and Herzegovina. Articles 44 and 45 clearly define terms of taxation of agricultural enterprises.

Article 44 Law on Value Added Tax

A person whose total supply of goods or services (hereinafter referred to as turnover) in the previous year does not exceed or is not likely to exceed the amount specified in Article 57 Paragraph 1 (50,000 KM) of this Act shall not be liable under the provisions of this Act. The regulation of paragraph 1 of this Article shall not apply to a taxpayer who is previously registered, i.e. whose total turnover was higher than the amount specified in the article 57 Paragraph 1 of this Act.

The person representing the household that performs agricultural or forestry activity for which income tax is paid in accordance with the cadastral income on agricultural and forest land (hereinafter referred to as a farmer) is not liable under the provisions of this Act if the total cadastral income of all his household members is below of 15,000 KM. The term "household" refers to a community which lives, earns and spends a joint income. The persons referred to in paragraphs from 1 to 3 of this article do not have the right to show VAT on invoices or to deduct input tax and are not obliged to keep books as prescribed by this Law.

The persons referred to in paragraphs from 1 to 3 of this Article may, at any time, apply for VAT to the ITA.

ITA, upon request by the persons referred to in paragraph 6 of this article, makes the decision on their registration for VAT and the obligation of VAT payment for such persons lasts at least 60 months.

Article 45 of the Law on Value Added Tax

All farmers, as described in paragraph 3 Article 44 who are not taxpayers are entitled to lump-sum compensation for input tax (hereinafter referred to as lump-sum benefit) when purchasing agricultural and forestry goods and services which arise as a result of activity in which tax is paid on the cadastral income from agriculture and forestry, under the terms and conditions set forth in this Article, provided that they have previously received approval from the ITA.

Lump-sum compensation is paid to farmers who deal with agricultural and forestry goods and services for persons who are taxpayers under this Law.

Taxpayers in paragraph 2 of this Article, to whom farmers supply goods or services, are required to add a lump-sum fee to the amount paid for the supply of goods or services. Taxpayers in paragraph 3 of this Article shall be entitled to deduct the lump sum as input tax under the terms of this Law. Detailed conditions for the implementation of this Article are issued by the ITA.

ITA before the end of the current year determines the annual fees for the next year. According to this Article, VAT will be compensated to the taxpayers, which was calculated by farmers for their goods and services.

5. RECORDING VALUE ADDED TAX IN AGRICULTURAL ACCOUNTING

A farmer has delivered a certain amount of vegetables to the Agricultural Cooperative in the total net value of 2.000 KM and for that the Cooperative shall calculate and pay a lump-sum fee to the farmer in the amount of 100 KM (2000. X 5%) and issue a receipt of payment. This Cooperative has sold the vegetables to a company which is engaged in vegetable processing for net price of 3,000 KM and calculated the VAT at the rate of 17% in the amount of 510 KM. The Cooperative shall be entitled to deduct a lump-sum fee of 100 KM as input tax, provided that it paid lump-sum fee and the value of received vegetables to the farmer.

Table 2.

The bookkeeping records of the procurement of agricultural products:

No.	DESCRIPTION	account number	AMOUNT	
			O	C
1.	Goods in warehouse	1301	2.000	
	Advance payment VAT	2820	100	
	Supplier fee <i>Procurement of Goods</i>	4321		2.100
2.	Supplier fee	4321	2.100	
	Main treasury <i>Paid Duties</i>	2430		2.100

We can see the specificity in the records of procurement of agricultural products which are used for further processing, because the bookkeeping is done like in procurement of materials and the product, in the true sense of the word, has such properties.

Table 3.

The bookkeeping records of the sale of agricultural products:

No.	DESCRIPTION	account number	AMOUNT	
			O	C
1.	customer receivables sales revenue Calculated sales VAT <i>For sale of goods</i>	2010 6011 4830	3.510	3.000 510

Table 4.

The bookkeeping records of the procurement of agricultural products used for further processing:

No.	DEPCRIPTION	Account number	AMOUNT	
			O	C
1.	Material in the warehouse Advance VAT Supplier receivables <i>For the procurement of materials</i>	1001 2820 4320	3.000 510	3.510

CONCLUSION

The paper has primarily explained the notion of value added and values added tax and its use. When we know what added value is, then it is very easy realize what value added tax is. Value added tax, as the name suggests, is the tax on the increased value of the purchased goods or services. It is charged at each stage of production or distribution through which the product passes from producer to the final consumer. The final consumer is, ultimately, the one who pays it.

It was also explained which specific factors that occur in agricultural enterprises affect the calculation and payment of VAT. The Act on VAT stipulates that the person representing the household and performing agricultural or forestry activity for which income tax is paid in accordance with the cadastral income of agricultural and forest land management, is not the taxpayer if the total cadastral income of all the members of his household is lower than 15,000. KM.

Furthermore, we gave a detailed legal description of farmers and agricultural companies that pay value added tax.

As an important difference compared to other activities, there is a lump-sum compensation which is, in every sense of the word, incentive from the state where the farmer resides, to boost the agricultural production.

Finally, we have shown the way to record the value added tax when we purchase and further sell agricultural products, but we also gave a review of the products which are purchased for further processing, i.e. supply of materials.

We have seen that agricultural production is specific, and as such, has a specific way of recording the value added tax in the terms of cost calculation, lump-sum compensation and VAT calculations.

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