



Assessment of the Regulation & Practices in Personal Income Tax Collection from Farmers and Gatherers in Republic of Macedonia

Contents

1. Executive Summary.....	3
2. Introduction	5
3. Methodology.....	7
4. Background	9
4.1. The Legal Situation before the last changes	9
4.2. The Latest Legal Changes of the Personal Income Tax from Agricultural Activity – Y2009..	10
4.2.1. Definition of the Main Terms and Entities Dealing with Agriculture.....	10
4.3. Personal Income Tax according to Categories.....	12
4.4. Obligatory Pension and Social Security Benefits According to Categories.....	15
4.5. Subsidy Program & PIT.....	17
5. Significance of the Problem	19
6. Problem Statement.....	27
7. Proposed Alternative & Recommendation.....	27
8. Roundtable Recommendations (19/03/2009).....	31
Appendix 1: Case Studies for Assessment of the understanding & practices in Personal Income Tax from Farmers	Error! Bookmark not defined.
Appendix 2: Short Review of the PIT Regulation for agricultural activity in the region (Bulgaria, Serbia, Croatia, Bosnia, Kosovo)	Error! Bookmark not defined.
Appendix 3: List of interviews.....	Error! Bookmark not defined.
Appendix 4: List of abbreviations.....	Error! Bookmark not defined.

Disclaimer

This study represents the views of the consultant involved in the study and does not necessarily represent the official views of the USAID, AgBiz or BEA Project.

1. Executive Summary

Currently in Macedonia, there are many categories of individuals engaged in agricultural activities who, according to the current legislation, do not have the same legal status which depends on various laws regulating this area. These categories range from:

- Individual Farmers, registered in accordance with the Law for Agricultural Activity;
- Sole Proprietors in accordance with the Macedonian Company Law;
- Individual farmers recorded in accordance with the Law for Obligatory Employment Benefits;
- Recorded farmers solely within the MAFWE who pay or do not pay any taxes or benefits;
- Conveyors of agricultural activity as an additional activity, already employed elsewhere or retired; and
- Category which is neither recorded nor legally registered anywhere.

The reasons behind this categorizations or groupings can be understood if we go back to the last ten years and review the different policy measures and legislations which resulted in the creation of unclear business environment. Direct results from these measures were considerable variations in the calculation of the employment benefits for different categories of farmers. The new law for PIT is trying to respond to this situation and to tax all those farmers that were not part of the system and were not paying any tax. The biggest change in the new PIT law effective from 01.01.2009 is the transfer of the tax payment liability from the legal entity to the physical entity.

At the moment, all these changes are creating a chaotic situation on the field, where the farmers of whatever category have diverse personal tax obligations which represent either their personal obligation or for some categories, the obligation of the legal entity which buys the agricultural products from them and has a legal liability for withholding personal tax in their name. In addition, the understanding of the changes of the PIT Law varies significantly. There is still not one common stance for the practical PIT Law implementation among the concerned state authorities, since we have the MoF and PRO on one side, and the MAFWE on the other side.

The issues raised by this paper refer to the analysis of the Personal Income tax Law within the context of all the related laws. Considering that the agricultural season is ongoing, the potential implications of partial implementation of the PIT law can be significant both for the farmers and the buyers, in a manner that may decrease the competitiveness of the Macedonian products on the export market.

In order for the current situation and issues to be surmounted, this paper offers an alternative which will simplify and clarify the PIT system and at the same time will be consistently implemented everywhere. Considering the importance of this issue for the sector in addition to the urgent need for necessary changes as the agricultural buy-out season is ongoing, this paper proposes immediate actions that will enable understanding of the obligations of the PIT for both concerned parties (farmers as payers and legal buy-out entities as potential withholders) to avoid disputes and potential large liabilities at the end of the year. At the same time, considering all the interrelated issues, this paper proposes a midterm alternative for the PIT related issues for the agriculture which requires necessary changes of the interrelated Laws though:

- Linkage of the existent unique register of farmers within the MAFWE to the PRO where all categories of farmers will be unified and treated equally
- Creation of unique rules for the employment benefits for all farmers
- Payment procedures for agricultural products conducted solely through transaction account to avoid informal cash transactions
- No PIT withholding for any category of farmers; the farmers will be liable for the PIT payments
- Information spreading for the obligations of each player based on Official Guidelines
- Coordination and acceptance of the activities of all authorities concerned with the issues for one common, clear, consistent solution of the problem

Only through coordinated and unified approach to all of the issues raised with this paper, the implementation of the Personal Income Tax Law concerning the agricultural activity will be accepted and practiced by all of the stakeholders concerned.

Once again it should be stressed that immediate acceptable solution is necessary, as the agricultural season is ongoing and the procedures practiced on the field vary.

2. Introduction

This document provides an overview of the main findings and key issues arising from the latest changes in the Personal Income Tax (PIT) Law and a proposed alternative for PIT implementation in the agribusiness sector in Macedonia. The last changes within the Personal Income Tax Law concern specifically the personal income tax collection from the farmers imposing significant changes both for the farmers and for the buyers of agricultural products.

The vast majority of Macedonian farmers and wild growing plants gatherers are unregistered physical persons who sell a variety of agricultural and wild growing plant products and do not have the “habit” of paying PIT for their income.

Since 2002 the GoM has issued several ad-hoc regulations to deal with the problem of not being able to calculate and collect personal income taxes due from unregistered farmers and gatherers of wild products. Solutions ranged from relieving various farmer types from the obligation based on their ability to prove that they are farmers and that they pay other taxes such as the cadastral income tax based on the agricultural land they own, or in some cases, declaring the entire activity as personal income tax free (wild growing plants gathering). On the other hand, the obligation for buyers to pay the personal income tax withholding for income generated by individual farmers from the sale of agriculture commodities to legal entities (consolidators, processors and retailers) has been a legal requirement.

The issues that have been arising in the past from the PIT regulation and the other related Laws have a significant implication on increasing the competitiveness of Macedonian agribusinesses. Some of the implications of these issues are:

- An inconsistent level of competitiveness between large registered agricultural entities and the small scale farmers since the taxation burden is not the same;
- Farmers are not interested to register due to the expenses which arise from the form of registered individual farmer;
- The formation and development of registered for-profit producers organizations, a process stimulated with other GoM support measures, is discouraged;
- GoM investments in welfare programs are very inefficient since most of the unregistered farmers are officially unemployed and are on welfare while producing and marketing agricultural products;
- An inadequate solution to the problem will stimulate producers to continue or even increase their focus on informal transactions;

- Non-resolution will diminish government tax collection;
- Informal buyers have an advantage over formal domestic buyers since they can avoid PIT-related issues; and
- Buyers of agricultural products will have a large potential liability hanging over their heads, if various GoM entities decide to enforce the withholding tax obligation.

The issues arising from the Personal Income Tax Law are closely interconnected with other relevant laws that are directly or indirectly related to the agricultural activity. Therefore, this assignment attempts to present an overall picture and assessment of the Personal Income Tax Law for agricultural activities within the context of the other laws such as the Law for Agricultural Activity, Law for Obligatory Employment and Social Benefits, Law for Payment Operations, as well as the subsidies program and other developmental programs for the agriculture in Republic of Macedonia. The main issue elaborated in this study arises from the interrelation of the above specified Laws and the confusion on issues, such as what type of a farmer needs to pay PIT and with what rate, whether the buyer of the products should or should not withhold PIT and for what type of farmer, etc. Besides defining the problem, the study proposes an alternative which should lead to a better understanding and better implementation of the PIT regulation.

3. Methodology

Due to the nature of the assignment the methodology used includes both interpretation and overview of the laws related to the PIT Law as well as a detailed field research to determine the practical aspects of the implementation of the Law valid until 31/12/2008 and the implications of the current PIT Law both on the farmers and the buyers of the products that are the relevant part of the value chain conducting the exports of the agricultural products from Macedonia valid since 01/01/2009. Thus, the methodology for the assignment comprises both a desk research and field research in order to gather all the relevant data.

The **desk research** included the collection and analysis of all relevant documents related to the personal tax. In this phase of the assignment, special attention was paid to the few partial decisions implemented in the past that had extremely negative impact on the wild plant products sector and recently on the milk processing industry. In addition, in this stage of the research, a short review of the legislation for personal income tax in the region was gathered from Serbia, Bulgaria, Croatia, Federation B&H, Republika Srpska and Kosovo as countries with a similar past and a similar level of development. It should be stressed though that this assessment did not conduct an in-depth analysis on the Personal Income Tax Laws for these countries, but it only indicates in short what the legislation in these countries is and how similar it is to the Macedonian legislation. During this phase, initial screening of the existing legislation was implemented. Data related to the current discussions for the modifications of the personal tax payment were also collected.

The **field research** consisted of 38 interviews conveyed with the: a) agribusiness sector (companies, traders, and processors), b) farmers (producers: registered and non- registered), c) associations of processors and producers, and d) institutions (ministries, agencies, responsible authorities).

In accordance with the representatives of the contractor, the selected sectors for the field research were sectors which are export-oriented and potentially involve a large number of farmers. According to this, the interviews were implemented in a way that represented the addressed sector (fruits, vegetables, lamb, milk, grapes) and the whole territory of the country.

The field research was based on previously developed 4 types of questionnaires, specifically designed for the agribusiness companies, farmers (registered and non-registered) and institutions. During the field research, the interviews with the institutions were limited on a national level, as the regional offices of the Public Revenue Office were not in a position to provide answers, since they were waiting for directions from the central office in Skopje.

The feedback from the field interviews was integrated within the Assessment. The interview process showed specifics in each of the sectors and to illustrate these, seven case studies from each of the covered sectors were developed based on the understanding, activities and expectations of the interviewed representatives.

4. Background

4.1. The Legal Situation before the last changes

Since 2002 the GoM issued several ad-hoc regulations to deal with the problem of not being able to calculate and collect personal income taxes due from unregistered farmers and gatherers of wild products. The interim solutions ranged from relieving various farmer types from the obligation based on their ability to prove that they are farmers and that they pay other taxes such as the cadastral income tax based on the agricultural land they own, or in some cases, declaring the entire activity as personal income tax free (wild growing plants gathering and sales).

The obligation for the buyers to pay the personal income tax, by withholding the tax for the income generated by the individual farmers from the sale of agriculture commodities has been a legal requirement since 2002. In general, the regulations provide for the legal entity purchasing the goods to withhold personal income tax for the payment executed by the legal entity to a physical person and transfer the withholding to the State Budget. This regulation was selectively and inconsistently enforced over the years.

Up until the last changes, the Personal Income Tax Law from agricultural revenue was charged on either the:

- a. Cadastral income determined for each unit of land which can be used for agricultural production and/or forestry regardless to whether the land was used or not; or
- b. Real income.

In addition, the tax payers of the income from agricultural activity on the basis of point a. in accordance with the cadastral income were exempt from the payment of personal income tax for the period of 2002-2008. According to the definition of the PRO, the cadastral income did **not** cover income from:

- Raising poultry and livestock in industrial manner, which is not on a large scale or directly related to land cultivation, fishery, beekeeping or raising other animals¹;
- Production of seeds, seedling material, plantation and glass house production of horticultural cultures, flowers, shrubs and forest trees, mushrooms and other types of agricultural and forestry products². (Which in reality was not practiced).

¹ http://www.ujp.gov.mk/mk/fizicki_lica/category/318

² Под приходи од земјоделска дејност што не се опфатени со катастарскиот приход се подразбираат:

- одгледување на живина и стока на индустриски начин, кое не е во поголема мерка или непосредно поврзано за обработување на земјиштето, риболов и товење риби и школки, одгледување на пчели или одгледување на други животни;
- производство на семе, саден материјал за размножување, плантажно и оранжериско производство на поделелски култури, цвеќе, грмушки и шумски дрвја, печурки и други видови на земјоделство и шумско производство.

4.2. The Latest Legal Changes of the Personal Income Tax from Agricultural Activity – Y2009

4.2.1. Definition of the Main Terms and Entities Dealing with Agriculture

According to the Law for Agricultural Activity, the last version dating from 2002, (Official Gazette of R. Macedonia 11/2002) **Agricultural activity** is defined as production, semi-processing, processing and sales of own agricultural products. This includes animal husbandry and production of other economically useful animals and sales of their products.

The agricultural activity can be conducted by **three forms of an entity** (According to the Law for Agricultural Activity, Official Gazette 11/2002):

1. **Individual Farmer (IF)** - Physical entity with a smaller-size agricultural activity (agricultural activity done personally by the farmer and maximum 10 employees including the members of the family as well as maximum five seasonal workers) refers to individual farmers **registered** at the register of the individual farmers (MAFWE). The individual farmer has to fulfill the following criteria:
 - a. *To own agricultural land (owner, concessioner, renter, usufruct user) or to have capacities for adequate agricultural activities;*
 - b. *To be an adult;*
 - c. *To have a general health ability;*
 - d. *Not to be employed (full time) or retired;*
 - e. *Not to be registered in the Trade Registry (“Trgovski Registar”); and*
 - f. *Not to have tax outstanding obligations and other public tax liabilities.*

According to the same Law (Law for Agricultural Activity), this entity is with unlimited liability, keeps books and the tax liabilities are determined by the submitted tax balance by the IF to the PRO and approved tax balance which is based on the real income.

2. Physical entity as a **sole proprietor and other form of legal entity (LL & JSC)**, named as traders, registered in the *Trade Registry (“Trgovski Registar”)*

In the case when the individual farmer does not fulfill the criteria for agricultural activity of smaller size (exceeds), the individual farmer has to register in the traders’ register (as a sole proprietor or legal entity with limited liability, joint stock company or other form specified within the Company Law).

Besides the criteria obligatory for an individual farmer, to conduct an agricultural activity in the form of sole proprietor or other legal entity form, there is an additional requirement of having a degree of at least agricultural high school.³

3. **Agricultural cooperative**, The “*Law on Cooperatives*” regulates all relevant matters with regard to the cooperative organizational structure which states that at least three individuals are necessary to establish the cooperative. Anything that is not covered by the law's provisions is to be dealt with through the “*Company Law*” or the cooperatives' statutes that serve as a "secondary legislation" governing the cooperatives. The cooperatives are registered in the adequate register as such.

All three forms from the above listed entities, which conduct agricultural activity, are **obliged** to be registered in accordance with the adequate Law(s) or the Company Law, and the agricultural activity conveyer has to be registered only in one adequate register.

The agricultural activity needs to be conveyed by the agricultural conveyer on an own agricultural land (based on ownership rights) or there is a legal basis for usage from the owner (such as concession, rent, etc.) or he has capacities for adequate agricultural activity.

At the same time the same Law defines the categories of physical entities which CAN NOT be considered as agricultural conveyers. “The agricultural activity conveyer **CAN NOT** be an entity where:

- a) The agricultural products are intended for **own consumption and consumption by family** members he/she lives with;
- b) **Full-time employed persons or retired persons** who are dealing with agricultural activity or are land owners or use the land owned by parents/children”

These are taxed in accordance with the regulation of the adequate tax area, and both forms (under a) and b)) have to be recorded in the MAFWE⁴. Otherwise, according to the same Law, the conveyers of the agricultural activity who are not recorded in the adequate registers could be **forbidden to engage in the agricultural activity** (which in reality has not ever occurred).

However, the reality shows that the majority of the conveyers of the agricultural activity belong to these categories i.e. they are either employed in other entity or retired persons.

³ In reality it was very hard to practically make a difference between the groups, and to which group the farmer belongs, or when the farmer will transfer from one to another group. It is also unclear whether the farmer that makes a higher profit has the obligation to re-register as company.

⁴ Ministry of Agriculture Forestry and Water Economy

At the same time, it should be mentioned at this point that the term “individual farmer” is differently defined by the Law for Obligatory Employee Benefits Payment where the individual farmer is defined as a person to whom the agricultural activity is the only profession and who generates revenue based on conducting an agricultural activity. This Law regulates those farmers who are not registered as Individual farmers (in accordance with the Law for Agricultural Activity) however pay solely pension and health insurance benefits calculated on the 20% of the average gross salary in Macedonia and are not allowed to employ other individuals unlike the IF registered in accordance with the Law for Agricultural Activity who is obliged pay obligatory benefits of one average gross salary in Macedonia (further elaborated in part 4.4 of this paper).

4.3. Personal Income Tax according to Categories

The income from agricultural activities, according to the last changes of the Personal Income Tax Law (Official Gazette 159/2008), is classified as an income from a self-employment activity and is no more a separate category of income.

Income from Self-Employment Activity refers to an income that includes income from agricultural activities (besides the others listed within the law). A taxpayer of a personal income tax from a self-employment activity shall be any sole proprietor, as well as any physical person performing agricultural activities. The base of the self-employed income tax shall be the net income determined in the tax balance submitted by the taxpayer at the end of the year. The net income shall be the difference between the taxpayer's total revenues and total recognized expenditures.⁵ (and the rate is 10%). The taxpayer, who due to certain circumstances, is not able to perform bookkeeping or whose activities are significantly burdened by book keeping, could fill in a request to the Public Revenue Authority, so that the personal income tax coming for his/her business will be paid on a lump-sum net income.

According to the same law, the personal income tax payer is each physical entity and each:

- a. Physical entity – trader
- b. Sole proprietor,
- c. Physical entities (persons) who are dealing with agricultural activities, etc.

Furthermore (in Article 9), a personal income tax payer is also a physical entity who conducts an activity unregistered.

The personal income tax from an agricultural activity is paid by the tax payer as a physical entity and a sole proprietor (trader). The basis for tax payment from a self-employment activity is the net

⁵ This is obligatory only for registered individual farmers according to the Law for Agricultural Activity

income tax balance (the difference between total revenues excluding subsidies and total recognized expenses) in accordance with the accounting rules.

All those physical persons who are not registered either as Individual farmers or as sole proprietors but who are dealing with agricultural activities will be taxed on their personal income earned from agricultural activity according to a lump sum. The lump sum is determined on the basis of a Request submitted to the PRO before the end of the year of taxation and approval of the submitted request as follows:

- The income from the agricultural activity which does not exceed a total annual revenue for the taxable year of 1.300.000MKD (excluding subsidies) is taxed on a lump sum determined net income. This also covers tax payers for income from agricultural activity as an additional activity (employed and retired persons).
- The basis for the calculation of the personal income tax is the difference between the realized total revenues (for the common agricultural property for all members of the agricultural holding (excluding subsidies)) and the accepted expenses are for:
 - a) Revenues up to 300.000MKD, accepted expenses of 100%
 - b) Revenues between 300.001MKD to 1.300.000MKD, accepted expenses of 80%
 - c) For persons engaged in an agricultural activity as an additional activity the accepted expenses 80% for revenue from 0 MKD to 1.300.000MKD;

The legal person “payer” of revenues, who buys the agricultural products from a physical entity who is **not** a sole proprietor and/or individual farmer (registered and pays personal income tax on the basis of the annual financial statement submitted to the PRO and sells products with an invoice) is obliged to submit records of the payments in a form of an annual report to the PRO for the amount of paid revenues to the physical entities with the personal information about the individual whom it is paid to.

So far the legal person – buyer of the products paying to the physical person for the purchased goods has been obliged to withhold and pay the personal income tax for and in the name of the physical entity which, according to the new PIT law and according to our discussions with Ministry of Finance representatives, will not be the case in the future. According to the MoF, those physical persons who earn higher revenues, i.e. revenue from agricultural activities exceeding 1.300.000 MKD, will automatically need to register in some other legal form, either as IF or SP or another form of a business organization in accordance with the Macedonian Company Law. This also means that they will be charged with a personal income tax on a “real” net income. They will also have to be registered as VAT tax payers. Even though this is stated in the law, in practice there is no instrument or in-charge institution that will organize and control it.

The Personal Income Tax Law under article 6, line 21b states that: revenues from sale of harvested medicinal herbs and forest fruits earned by a natural (physical) person are exempt from payment of income tax on earnings. (In force from 23/04/2006, still valid;)

With this, the gatherers of wild gathered products are still relieved from PIT payment and the buyers are not obliged to withhold the PIT from the gatherers.

In addition to the above mentioned laws, the Law for Payment Operations (Official Gazette 113/2007) states that the payment operations have to be completed only through transaction accounts which are registered at the Single Register of Transaction Accounts (article 10, line 1) and the payment among the participants within the payment operations which are not conducted through the transaction accounts is not allowed.

Payment in cash can be done through redrawing cash from the account and kept in the cash desk within the max allowed cash desk maximum (company policy). Individual payment in cash conducted by a legal person for a purchase of products and services must not exceed 6.000MKD per single payment.

The Buyer Obligations for PIT withholding depending on the Farmer type

	Sales	Withholding	Payment
Individual Farmer or Sole Proprietor	Transaction account based on Invoice	No	Gross Amount
Recorded farmer with approval for lump sum taxation from PRO	Transaction Account	No	Gross Amount
Farmer not recorded at the PRO	Transaction Account	Yes	Reduced by 6,5% on gross amount (recognized expenses 35%)

The Farmers' Obligations for PIT Depending on the Farmer type

	Submits to PRO	Payment to the PRO
Registered Individual Farmer or Sole Proprietor	Annual Accounts, and Tax Balance	10% on real net income
Farmer requests approval for lump sum taxation from PRO	Request for Lump sum taxation and Approval	For income <300.000MKD, PIT is 0 MKD (100% recognized expenses)
		For income >300.000MKD and < 1.300.000MKD 2% PIT (80% recognized expenses)
		For income < 1.300.000 MKD from agriculture from additional activity, 2% PIT (80% recognized expenses)
Farmer without approval for lump sum taxation from PRO	/	Withheld and paid by the legal entity buyer (6,5% PIT, with recognized expenses 35%)

4.4. Obligatory Pension and Social Security Benefits According to Categories

The employed persons in Macedonia pay several types of benefits calculated on their gross salary where the total benefits amount to 28,4% from the gross salary, (besides the payment of personal income tax) these rates are announced to decrease in the next two years (2010 to the total of 25,2%, and 2011 to the total of 22,5%):

1. Health Insurance (19%)
2. Pension benefits (7,5%)
3. Contribution in case of unemployment (1,4%)
4. Additional health insurance (0,5%)

According to the last changes in the Law for Obligatory Social Benefits (Official Gazette 142/2008), the benefit payments within the agricultural activity will differ if the benefit payer is:

- a) Employee within a legal entity with a form of LL or JSC
- b) Sole proprietor and Individual Farmer⁶ (self employed), within the law defined as *“self-employed person” – physical entity conducting independent economic activity or professional or other intellectual service from which he/she generates revenue in accordance with the law (article 4, line 10);*
- c) Individual farmer defined with the Law for Obligatory social benefits (article 4, line 11) as: *“individual farmer” is a person to whom the agricultural activity is the only profession and who generates revenue based on conducting agricultural activity.*

The following are illustrations of the above said. So, for the case under a) the minimum salary for January 2009 and the benefits are:

Case 1: Minimum Salary lower than the lowest basis (50% from the average monthly gross salary in Macedonia: $50\% \times 27.513 = 13.757$)

Gross salary	9.019MKD
Net salary	5.112MKD
Pension benefits	2.613MKD
Health benefits/insurance	1.032MKD
Employment benefits	193MKD
Additional health insurance	69MKD
Personal Income tax (gross-benefits-personal income tax exemption)	0MKD

⁶ Registered in accordance with the Law for Agricultural Activity from 2002

(9.019-2561-7000=-541)	
------------------------	--

For a case under b) registered individual farmer and sole proprietor dealing with agricultural activity, the salary and benefits costs for minimum salary for the month of January 2009 are the published average salary within R. Macedonia for self employed person⁷:

Case 2: One average salary within R. M for January 2009, 27.507MKD

Gross salary	27.507MKD
Net salary	18.426MKD
Pension benefits	5.226MKD
Health benefits/insurance	2.063MKD
Employment benefits	385MKD
Additional health insurance	138MKD
Personal Income tax (gross-benefits-personal income tax exemption)	1.270MKD

Case 3: Individual farmer defined within the Law for obligatory benefits (**not** a registered IF according to the Law for Agricultural Activity) where the basis for calculation of the benefits is 20% of the average published salary within R. M. Individual farmers that belong to this category do not pay only pension and health benefits.

Gross salary (only basis for calculation)	5.501MKD
Pension benefits	1.045MKD
Health benefits/insurance	413MKD
Personal Income tax	0MKD

⁷ During the assignment preparation period there were discussions on possible reduction of 50%

4.5.Subsidy Program & PIT

The subsidy program i.e. Program for Financial Assistance in Agriculture for 2009, for the selected products is:

Product	Criteria	Financial Assistance per ha or head
Horticulture		
Horticultural cultures open-field or plastic tunnel production, cultivated production of medicinal, aromatic and spice plants	Minimum planted area 0,2 ha	9.000 MKD/ha
Glasshouse production of horticultural products (tomato, pepper, cucumbers and cut flowers)	Minimum planted area 0,2 ha in closed space under controlled conditions Produced and sold quantity on the domestic and export market by 15/05/2009	80.000 MKD/ha
Additional financial assistance of industrial horticultural cultures (tomato, pepper, cucumbers and cut flowers) sold to the processing capacity	For industrial horticultural cultures sold to the processing industry for vegetables by 31/10/2009	3.000MKD/ha
Grapes/Vineyards		
New areas planted with vine stems	New vine stems on minimum area of 0,2 ha in the period of autumn 2008 and spring 2009 Recommended vine variety or domestic table grape varieties	140.000 MKD/ha
Financial aid for areas under vine stems	For areas under vine stems with minimum area of 0,3 ha	7.500 MKD/ha
Produced and sold grapes in registered domestic wine producer	Produced and sold grapes by 31/10/2009	2,5MKD/kg
Cattle		
Financial support for the "marked" cattle head <i>busha</i> or other mix of breeds	Reduced support: 1 to 20 – 100% 21 to 100 – 60% 101 to 300 – 40% Above 300 - 20%	1.500 MKD/head
Financial support for the "marked" cattle head from the breeds: <i>Holstein, Friesian, Simmental, Montafon, Oberintal</i> , or other beef breeds (for slaughtering)	Reduced support: 1 to 20 – 100% 21 to 100 – 60% 101 to 300 – 40% Above 300 - 20%	2.000MKD/head
Financial support for the produced and sold milk	Milk sold in the period November 2008-september 2009 to processing capacities registered in the Register for the production of food from animal origin	2,5 MKD/kg
General Financial Support		
Reimbursement for registration expenses for registered individual farmers and farmers insured in the FPSS of RM	Individual farmers registered according to the law for agricultural activity and insured in the FPSS	2.000 MKD

Source: Excerpt of the Program for Financial Assistance in Agriculture for 2009, MAFWE

The financial assistance can be used by all agricultural holdings recorded (not necessarily registered in the MAFWE and CR) in the Single Register of Agricultural Holdings. The family agricultural holding is a farm recorded within the MAFWE and possessing a unique identification number from the register; it is not obligatory for one to be registered as a individual farmer to have the ID number and to be eligible for subsidies. This indicates that the registered IF⁸ does not have any additional benefits concerning the subsidies compared to the other conveyors of agricultural activities.

The macro level approximations of the PIT that could be generated from the agricultural activities is not possible to be calculated from the publically available data since:

- The average plot per product varies throughout the country and the regions
- The number of household holdings with an average area of production varies throughout the country per product which may result with holdings which can be either in the category of PIT payers with 100% accepted expenses or the other category of 80% accepted expenses.
- The average agricultural holding produces more than one agricultural product and it is difficult to make an approximation of the combinations and areas of each plot within the combination of products

Therefore, to illustrate the impact of the PIT on an average farmer, we decided to consider an average producer with an average area and yield in the regions where the production of a certain product is most present. However, one should bear in mind that the agricultural holding (and household) usually produces more than one product, thus expecting total income of more than 300.000 MKD per household which means that in reality this type of farmer will not be relieved from PIT. (See Appendix 1)

⁸ Individual farmer according to the Law for Agricultural activity

5. Significance of the Problem

The issues arising from the PIT regulation and the other related Laws have a significant implication on increasing the competitiveness of the Macedonian agribusiness and affects both the farmers – producers of the agricultural products and indirectly the buyers of agricultural products who are traders and exporters of fresh agricultural products as well as the processors of agricultural products.

According to the MoF the lump sum personal income taxation is aimed at all those physical (natural) persons who are not registered i.e. it does not cover the sole proprietor or the registered individual farmers, but it concerns all those physical persons who have not been recorded so far in the PRO as persons who are receiving any income from agricultural activity including:

- those who live solely from such activities and are not recorded within the PRO;
- those who have the agricultural activity as an additional activity (employed and retired) and are not recorded within the PRO; and
- those who produce for their own domestic consumption but sell the part that remains unconsumed and are not recorded within the PRO;.

This indicates that the changes of the Law on PIT tax are aimed at covering all those physical persons who generate income from the agricultural activity but have not registered under any form and have not paid PIT so far due to the fact that in the period of 2002-2008 the farmers were relieved from the payment of cadastral income calculated PIT payment which means that in the last decade the payment of PIT from unregistered farmers was almost equal to zero. In addition, if any PIT was charged, the PIT was withheld by the legal entity which was the buyer of the products – the payer.

The farmers are now faced with a new charge and new procedure unknown to them which can be expected to be transferred to the price of the produced items they sell, i.e., this cost can be expected to be “consumed” by the farmers as the selected products are mainly export products and their price is globally determined.

In addition, the “farmers” of all categories are not aware that this does not cover all entities dealing with agricultural activity not to mention that some of them are even not aware of the changes of the PIT Law neither are they aware of their obligations towards the PRO.

The current PIT Law changes cover neither the registered IF (in accordance with the Law for Agricultural Activity) nor the SP. All provisions of the PIT law concern the remaining farmers who need to submit a request to the PRO for lump sum taxation. After receiving the approval, they will be charged with PIT at the end of the year based on a submitted Annual Tax Balance (PDD-GDP form) and the Certificate from the PRO. The farmers are obliged to submit these forms until the end

of the year for which they will be taxed. The calculation of the taxation will be based on 0% PIT (for income <300.000MKD) or 2% (for those with an income above 300.000MKD and below 1.300.000MKD), or performing agricultural activities as additional activities up to 1.300.000MKD).

For all those farmers who will not submit a request to the PRO, the legal entity buyer should withhold tax on the basis of “other income” which is taxed with 35% recognized expenses, i.e. withhold tax of 6,5%.

The legal entities which are the buyers of the products, on the other hand, are not 100% sure of their obligations whether they should or should not withhold tax for any of the “farmers” and if they should, what amount should be withheld. It is practically not possible for them to know what the exact amount should be withheld, since it is difficult to determine what category a farmer belongs to. They also fear the possibility of recurrence of the situation in the past years when, through selective taxation, some legal entities were charged with late PIT payment in the name of the farmers.

The implementation of the taxation and the “actual” collection of the tax are based on the assumption that the Payment Operations Law will be fully implemented and the legal persons who are buyers of the goods will not conduct any cash payment and the payment of the goods will be solely through the transaction bank accounts. However, according to the banks⁹ and the codes for cash redrawing, the companies can redraw cash for buyout of agricultural products (code 860) and thus can make payments in cash (up to 6.000MKD per payment). And the PIT Law clearly states that the payments from the legal entities to the farmers have to be conducted exclusively through the transaction account (article 88). The current practice on the field does not show the implementation of this obligation and the cash payments still occur on large scale that directly jeopardize the full implementation of the PIT law. The cash payments also contribute to developing an unfair business environment on the field.

If the payments are solely conducted through a transaction account (in reality on a national level), the buyers of the agricultural products who are registered as legal entities will also benefit. The local companies-buyers of the agricultural products will have advantage over the other buyers (from other parts of the country) because the producers know them better and will trust them more than the others when the payments will be conducted on a transaction account and not paid immediately. This will provide additional incentive for the legal entities to open buy-out points in different locations within the country. In addition, the disloyal competition from buyers who are only physical unregistered persons buying usually in cash, may be expected to decrease.

⁹ Komerčijalna Banka, NLB-Tutunska banka, Stopanska Banka

The legal persons who are buying agriculture products are obliged to submit Annual reports to the PRO for all the payments to the physical entities i.e. payments without invoice, and have to collect information such as the personal ID numbers of the persons they are buying from. In this manner, the PRO will have an overview of the payments made to physical persons and the sum paid on one hand, and their transaction accounts and the total annual income on the other hand to determine if one qualifies for 0 MKD PIT or 2% PIT on the income if the person has previously submitted a request for lump sum taxation.

In addition, it should be stressed once again that the Ministry of Agriculture defines the individual farmers differently from the Law of Social Obligatory Benefits, for pension insurance, where the individual farmer is considered as a person who is not registered but conducts agricultural activity and “lives” from that activity. These physical persons pay much less compared to those who are registered individual farmers and are now considered as part of the “self employment activity”.

The Law for Agricultural and Rural Development (Official Gazette 134/2007) defines several important terms which relate to the other laws and the distribution of the subsidies. According to this law, MAFWE has established a Unique Register of Agricultural Holdings (URAH), where all physical and legal entities dealing with agricultural activities are registered. The register keeps records of all the agricultural holdings including data on the agricultural capacities of the holding, such as land ownership, number of animal heads, type of crops produced, size of the farm, etc. Each agricultural holding is assigned a Unique Identification Number, and the holding is obliged to declare all changes on the farm. “The Unique Identification Number of the Agricultural Holding (UIN) is the basis of the Unique Registry of Agricultural Holdings and its connection with the other registers.” According to the MAFWE, this is the only manner by which a record of all the agricultural holdings within the country can be kept. At the same time, these are all entities eligible for the subsidies, loans, and rural development program. Agricultural holding is defined as “organizational and business wholesome unit with agricultural activity for which there is a record within the MAFWE and which owns or uses agricultural property. The Agricultural holding covers one or more production units. The agricultural holding can be a legal entity and/or household agricultural holding”. The Household Agricultural holding has been imposed as the only logical manner of keeping record of the agricultural activities as it is often the case when the owner of the land is the eldest in the household while the members of the household are involved in conducting agricultural activities. The Household Agricultural Holding as defined by the same law is “an independent business and social unit based on ownership and/or usage of the agricultural property and is managed by the members of the household.” In this manner the MAFWE has a record of all the persons involved in agricultural activities and not only the owners of the property. URAH and the UIN provide a

connection to all the other registries such as those for animals, organic production, seeds production, vine areas etc., however, the process of establishing links among the various registers is still not completed. This means that this registry, via the UIN, holds all persons that have ever applied for subsidies, that is: the registered IFs, the registered SP, the individual farmers as defined by the Law for Obligatory Social Benefits, and all other forms of farmers.

According to the latest information from the Central Registry Office (December 2008) of RM there are 4.013 legal agricultural entities: 1.778 registered individual farmers, 56 sole proprietors, and 2.179 other companies such as LLC, JSC. Compared to the total number of registered farmers in the URAH which accounts for approximately 81.000 in 2008 (expected to reach 90.000 in 2009¹⁰), the number of legal entities is very small.

Based on these numbers if we assume that the number of recorded farmers in Macedonia in 2009 is 90.000, the registered forms have already been paying the PIT while the other forms have not, thus the new changes will concern at least 85.987 farmers, excluding any farmers not recorded in any system.

In practice, the MAFWE has established this type of recording agricultural holdings to improve the system for recording the farmers in order to create appropriate agricultural policies.

The registered individual farmers (IFs) according to the Law for Agricultural Activity and the sole proprietors are paying higher obligatory benefits; the establisher of the entity is personally liable with his/her entire property, has to keep accounting records, PIT is calculated on the basis of net income (no opportunity for lump sum taxation). However, the IFs and SPs can benefit from VAT refunds for inputs used for the primary production of agricultural products.

The registered individual farmers (under the Law for Agricultural Activity) and the sole proprietors feel undermined compared to the other agricultural activity conveyors and are seriously considering de-registering¹¹ because:

- Their taxes are higher (real income PIT based on the tax balances – real income)
- The benefit payments are much higher (one gross average salary)
- There are no additional benefits for subsidies or rural development program (recorded agricultural holdings)
- Their expenses are much higher and thus the prices of the other farmers who are not registered cause a disloyal competition by significantly reducing the prices

According to the Ministry of Finance, for the income from agricultural activity (for the lump sum payer), the legal person is no longer obliged to withhold tax in the name of the physical entity i.e. at

¹⁰ According to the MAFWE

¹¹ The interview process

the end of the year in accordance with the received income, the person will be taxed with 0% or 2% of PIT on the total income as long as the physical person has submitted a request for lump sum taxation and it has been approved by the PRO.

However, the articles (Article 76, 77) which oblige the legal persons to withhold and pay the personal income tax in the name of the physical entities cause another problem for the buyers since although the ministry states that they should not withhold and pay the personal tax for the physical entity, the articles are still valid for the other type of incomes and eventually this may be interpreted that the legal person should have calculated and paid the personal income for the farmers (the cases of IMB PIT of 2,5mil EURO for 2006 and 2007, etc.).

The implementation of the law, as it is interpreted by the concerned institutions (MoF), will also have a positive impact on the competition among the buyers of agricultural products. If we assume that the payment of cash will not be possible (in practice as well) and the payment will be conducted solely through transaction accounts, then it can be expected that the number of physical entities – buyers who were unknown to the farmers and conducted accidental buy outs in the past buying out products in cash (no tax payments at all) causing disloyal competition, can be expected to be significantly reduced since the farmers will consider the first as a more trustworthy payer as long as the payments through transaction accounts is well enforced and the payments on the green markets are controlled.

According to MAFWE¹², with the current interpretations of the PIT Law by the MoF, they are aware that the current PIT law puts the registered IFs in a position when they are paying much more for employment benefits than the other unregistered farmers who are not charged with the same rates. Regarding this issue, the MAFWE has submitted a request to the GoM to consider changing the PIT Law or the interpretation in a manner that the lump sum PIT charging will cover the registered IFs as well, and at the same time charging the IFs with payments of the obligatory social and other employee benefits on the same gross amount as it is for the individual farmer as defined by the Law for Obligatory Benefits, i.e. on 20% of the average gross salary in R. Macedonia and not on a one average gross salary. the MAFWE thinks that in this way the two groups (registered and unregistered farmers) will have equal treatment and the same rights as the rights they have for subsidies and the other programs for support (loans, rural program investments etc.). Only in this manner the category registered IFs will remain valid and represent a motivational factor for the farmers not to deregister. On the other hand, if the request is not accepted by the GoM and the MoF and PRO, and no changes are made in the PIT law and/or the other related Laws, the category registered IF should not exist since it does not motivate farmers to register but has quite the opposite effect actually.

¹² Interview with Mr. Perica Ivanoski, State Councilor, MAFWE of R. M

These issues raise the question of the weight of the Law for Agricultural Activity and its parts, such as part IV which states that there are penalties for those persons conducting agricultural activities unregistered – which has not been implemented in any occasion so far.

All of these are issues that should motivate MAFWE to consider significant changes in the Law for Agricultural Activity if the other laws (PIT and OB) are not changed.

However, if the MoF does not accept these initiatives, the MAFWE should significantly change the Law for Agricultural Activity which will consequently cause difficulties such as the issue of termination of the current category registered IFs.

This means that many of the IFs who have accumulated liabilities for the various obligatory employment benefits which have not been paid yet, with the termination of this category will have to liquidate the entity IF and in order to do that, they will have to first payout the accumulated unpaid liabilities from past periods.

In line with the withholding of PIT, it should be mentioned that the definition regarding the former taxation on cadastral income, which is still available on the website of the PRO, stating that the cadastral income does not relieve the unregistered farmers selling agricultural products, such as pepper, tomato, etc. has not been implemented in practice. On the field it was noticed that the local offices of PRO have given Certificates which state that the farmer is in the category of a cadastral income tax payer, although he/she sells products which are horticultural products produced in a closed area. At the same time the PRO charges the legal entity, the Industry for Milk-Bitola for tax which according to them was to be withheld in 2006 and 2007 from the unregistered farmers on the bases of article 55-a for the PIT Law, under “Other Income” (contradictions in the implementation caused by individual understanding of the PIT Law).

This article is still in the PIT Law which may indicate that the PRO may charge other legal entities on the same basis even in the future as long as the farmers are not registered i.e. have not submitted a request, approved within the PRO for lump sum taxation. If this remains to be the case, it will present a problem for the legal entity buyer of the product since the buyers will not know what lump sum taxation category the farmer belongs to, whether the farmer has submitted any request to the PRO considering that the request has to be submitted by the end of the year while the buy out is conducted during the year. (The buyer will have to require the seller to prove their tax status.) This conclusion is based on the statement of PRO in the weekly magazine *Kapital* cited within an article: *“According to the PIT law the payer of the income, i.e. the legal entity has an obligation to withhold and pay the PIT when it pays income. In the case when the payment is for the income of farmers who are not registered, it has a treatment of so called “other income”. These are incomes which are not explicitly stated in the law and are not relieved from taxation and are not otherwise taxed. The Law*

defines the term “other income”, as an income for which there is an advance payment for PIT through withholding (when payment is done by the payer and not with a “decree” from the PRO). The advance payment of the income tax is calculated by the payer for each paid income, explains PRO”.¹³

According to the MoF, the last changes of the personal income tax law for persons who generate income from agricultural activities substitute the personal income tax based on the cadastral income which does not exist anymore, and are intended to cover all those physical entities that are not recorded in the PRO as persons who pay tax from this activity. It is still to be decided how the persons, owners of agriculture land, who are not farming the land, will be charged with a specific tax. With the last changes, the agricultural activity is categorized as an income with special rates (as described above) and calculations, which means that the category “other income” (article 55-a) which until 31/12/2008 covered the agricultural income from unregistered farmers, which was taxed with a rate of 10% on recognized expenses of 35%, is not valid when the physical person submits an application for lump sum taxation to the PRO (when revenues are < 1.300.000MKD by the end of the year for which the person is taxed).

¹³ <http://www.kapital.com.mk/DesktopDefault.aspx?tabindex=2&tabid=0&EditionID=658&ArticleID=15786>

Table: Overview of all categories of farmers within R. Macedonia and their obligations

Type	Entity	Registered/Recorded at	Sales	Benefits paid on:	Subsidy Eligibility	PIT by 31/12/2008	PIT payer and rate	VAT	Obligations towards PRO and PIT from 01.01.2009	Number (12/2008)
Registered Individual farmer (IF)	Legal entity	PRO, CR, MAFWE	Through Invoice	1 Average gross salary	Yes	Payer	The entity 10%	Obligatory > 1,3 mil, < 1,3 mil MKD voluntarily	<ul style="list-style-type: none"> Accounting Annual Accounts Tax Balance - Real Income 	1.778
Registered Sole Proprietor (SP)	Legal entity	PRO, CR, MAFWE	Through Invoice	1 Average gross salary	Yes	Payer	The entity 10%	Obligatory > 1,3 mil, < 1,3 mil MKD voluntarily	<ul style="list-style-type: none"> Accounting Annual Accounts Tax Balance - Real Income 	56
Recorded Family Holding	Physical entity	MAFWE, now PRO also	On Transaction account	If recorded at the PIOM basis 20% of the average gross salary	Yes	Payer on cadastral income (relieved until 2008) or on 35% recognized expense	Until now the legal entity buyer, now the physical entity him/herself	/	Request and approval for lump sum payment: <ul style="list-style-type: none"> ≤ 300.000 MKD, 100% expense 300.000 > x ≤ 1.300.000 MKD, 80% expense 	8.000 registered in PIOM not in PRO
Recorded Family Holding	Physical entity	MAFWE, if not in PRO	On Transaction account	If recorded at the PIOM 20% of the average gross salary	Yes	Payer on cadastral income (relieved until 2008) or 35% expense	Until now legal entity buyer, now the physical entity him/herself	/	Without request and approval for lump sum payment: <ul style="list-style-type: none"> 35% recognized expense 	68.987 (81.000 subsidy receivers for year 2008 minus the other known categories)
Recorded as Additional Activity Conveyor	Physical entity	MAFWE, from now PRO	On Transaction account	No need since he/she is employed or retired	Yes	Payer on cadastral income (relieved until 2008) or 35% expense	Until now legal entity buyer, now the physical entity him/herself	/	Request for lump sum payment: <ul style="list-style-type: none"> ≤ 1.300.000 MKD, 80% recognized expense 	
Not Recorded	Physical entity	from now PRO	On Transaction account	No need if employed or retired; or registered as unemployed	No	/	Until now legal entity buyer, now the physical entity him/herself	/	Without request and approval for lump sum payment: 35% recognized expense	
LLC or JSC	Legal entity	PRO, CR, MAFWE	Through Invoice	Min benefits paid on 50% of 1 Average gross salary	Yes	Not a payer (Withholder if it buys)	Until now withholding 10% on 65% of payments Now not withholding except for "other income" category (not registered and recorded at PRO)	Obligatory > 1,3 mil, < 1,3 mil MKD voluntarily	<ul style="list-style-type: none"> Accounting Annual Accounts Tax Balances - Net income tax 	2.179

6. Problem Statement

The remaining open issues behind the PIT Law and the other related laws in regards to the agricultural activity considered in this study which need urgent solution are:

- What are the eligible lump sum taxation payers;
- Will there be any potential liability for the legal entity-buyer to be charged for not withholding PIT for past periods, and if so for what farmers;
- When will the procedures for lump sum taxation be defined, and what in the meanwhile;
- What documentation should the buyer ask from the seller to know in what category of PIT payer does the seller belong;
- Why the farmers are in different Laws defined differently and thus pay different amount of employment and social benefits?
- Will the buyer have the right to pay in cash to the farmers and when?
- Can the PRO use the already existing Register of Agricultural Holdings for taxation purposes?
- Etc.

7. Proposed Alternative & Recommendation

Taking into consideration the previous text explaining the views of the interviewed institutions through their representatives and the review of the current laws, together with the practice on the field with their understanding of the changes, it can be concluded that there are neither consolidated specific standpoints of the interpretation of the PIT Law by the institutions nor there is a consolidated unified understanding of the changes of the PIT Law among the farmers or the buyers of agricultural products.

The concerned institutions do not hold a common official opinion but they are still in the process of consolidating their opinions especially since there is not a specific decision on who will be able to use the lump sum taxation for PIT or whether the legal entities will withhold PIT and for whom.

Since there are several issues connected to the PIT Law, as described previously, and since the issues which are connected require alteration of the related Laws referring to the agricultural activity which requires substantial discussions and decisions with this paper we propose:

1. Immediate steps for a short-term improvement of the process of PIT; and
2. Mid-term recommendations for improvement of the PIT implications for the farmers on one hand and the buyer on the other hand.

1. Immediate steps for the short term improvement of the understanding of the PIT changes

Based on the interpretation of the MoF as the most relevant institution concerning the PIT immediate implementation and the confusion of the interpretation on the field we propose the following immediate steps:

- a. Establishment of an unofficial advisory body with representatives from all relevant government institutions, representatives from the FFRM and representative from Associations of processors and buyers of agricultural products where the findings and recommendations of this Policy Paper will be considered as a starting point with the role to present all the open issues within the sector and which are related to the PIT issue especially what category of farmers are eligible for lump sum taxation, and under what circumstance should the buyers withhold PIT;
- b. Constant monitoring and contact of the above mentioned body with the PRO and MoF to be aware of when and what forms will be issued, and urge the completion of the procedures with which farmers can apply for lump sum personal income taxation within the PRO and to urge the PRO to speed up of the process;
- c. Discussion with the MoF and PRO for the release of clear *Official Guidelines* from the MoF on implementation of the PIT and the obligations of each party (especially what category of farmers will pay what amount of PIT, and whether the legal entity needs to withhold tax and for what category of farmers)
- d. Once the clear *Official Guidelines* are developed by the MoF, these should be distributed both to farmers and buyers explaining specifically what the responsibilities of each party are (farmers and buyers) for clear implementation of the PIT Law in the agricultural sector through information sessions.

The outcome of these steps will be a common understanding of the PIT Law changes and the implications and responsibilities of the farmers on one hand and the buyers on the other hand where all categories of farmers will know their responsibilities and the buyers will know when to and when not to withhold tax since the agricultural buyout is ongoing and may affect all parties.

These suggested activities are best conducted with the cooperation of a valid representative of the farmers, such as the FFRM, which is the rightful representative of the farmers, since the changes concern them mostly, in cooperation with some local consulting company providing technical assistance in the process.

2. Midterm steps for improvement of the process of PIT

On the other hand, besides the current interpretation of the PIT, as it was discussed above that there are collisions and different interpretations of the PIT Law in relation with the other agriculture-related laws, we believe there are needs for changes of the laws on a midterm level (not longer that

the end of the current year). The implementation of the PIT Law and the related Laws should be a simple, clear and consistent system. In this regard, this paper proposes **midterm alternative which includes several steps and changes as this alternative is viable and can be effective for the implementation of this Law:**

Step 1: One single register which will cover all possible categories of farmers

- There is a Single Unique Register of all agricultural holdings within the MAFWE which holds the registered individual farmers and recorded conveyors of agricultural activities. We propose that this register transforms all the registered and recorded farmers as registered individual farmers which will be the link to the PRO and the concerned authorities dealing with PIT which will ease the process of constant creation of new registers with available information. In this way, all possible categories of farmers (registered IF, SP, recorded, not-recorded etc.) will be covered by one and the same form of organization and the confusions of various categories and the obligations of every category will be terminated without the need for the current registered IFs to go through a liquidation process on one hand and the recorded farmers to go through a complex registration process on the other hand.
- This would mean changes are necessary in the Law for Agricultural Activity and the Law for Agricultural and Rural Development

Step2: Single basis for the payment of obligatory employment benefits

- If step 1 is realized, then all newly defined individual farmers will be able to pay employment and social benefits on 20% of the national gross average salary throughout the country, significantly reducing the costs for the current registered IF category according to the Law for Agricultural activity and at the same time more affordable sum will be presented to farmers who do not pay any benefits and can join this group and become part of the register. (The payment could be made on a quarterly basis as the agricultural activity is seasonal and this practice has been used so far as more successful.)
- This would mean changes are necessary in the Law for Obligatory Benefits.

Step 3: The legal entity buyer of agricultural products will not withhold PIT for any farmer

- The legal entities should not have any responsibility of withholding tax for the physical person-farmer. This will avoid any possible confusion for rates and calculations of the PIT currently done by the legal entity. The legal entity should not act as a continuation of the mechanism of PRO just because the PIT collection so far

was not successfully implementable in the area of agriculture. The legal entity should only submit the report for all the payments and the persons they paid to.

- At this point changes are necessary in the Law for Personal Income Tax

Step 4: Payments to farmers solely through transaction accounts

- The legal entity should not complete any cash payment, but all of the payments must be conducted through a transaction account. In that manner all of the payments will be recorded. That will create a better position for the local buyers (companies) as the farmers will choose the local traders and the level of trust towards them will be much higher than that concerning the unknown traders from other parts of the country or the unknown agents paying in cash through informal transactions.
- At this point changes are necessary in the Law for Payment Operations where it allows payments until 6.000MKD while the PIT Law does not allow this.

Step 5: Information campaign all over the country

- The current or any other future potential changes in the legislation and procedures in order to be accepted and implemented, at first need to be spread all over the country, so the farmers can understand and support them. For that reason, an organized overall promotional/information campaign is necessary in order to spread the information to all rural areas over the country. The campaign should be created in a way to be easily understood by any person so that she/she would know how to assess the benefits from it.
- This is a step followed once the above steps are completed and the relevant changes are completed

Step 6: Coordination of the legal adaptation process among the responsible institutions

- All of the responsible institutions should coordinate among themselves in order to make the necessary changes in the regulations and directions for implementation and come to one specific common understanding and interpretation of the changes in the PIT law. Once the changes are made, the procedures will become clearer and equal for everyone.

Steps 7: Once the 2009 implementation regulations are released, no changes should be implemented until January 2010.

It is considered that this mid-term alternative will provide clarity, simplicity and consistency in the process of implementation and control of PIT payments in the agricultural sector. The confusion and

many of the issues arising on the field will be resolved. It should be stressed though that the ultimate solution lies in the changes to be undertaken on more levels as described above however even if these are not undertaken immediately due to the time they may consume, the agricultural sector on the field still needs clarification and one clear official Guideline no later than July 1 clarifying the obligations of each category in regards to the PIT.

The FFRM as representative of the farmers is an adequate organization that could be used for initiating these changes in combination with provided technical support by some local consulting company.

8. Roundtable Recommendations (19/03/2009)

On 19/03/2009 AgBiz Program organized Presentation and Roundtable Discussion on the Regulations and Practices in Personal Income Tax Collection from Farmers and Gatherers held in Kavadarci.

The presentation of the study was conducted by EPI CENTAR International and the Discussion was facilitated by AgBiz representatives. The participants within the discussion were, representatives of the FFRM, farmers, processors of agricultural products, traders/exporters of fresh agricultural products, associations of processors, etc.

The presentation included the proposed short-term (immediate) steps as well as the proposed long term suggestions as given in this paper.

The Discussion after the presentation included several other suggestions as follows:

1. The PIT Law should be changed in a manner that the PIT will not be calculated on a lump sum which is equal for all groups of agricultural products, but specific calculations that are connected with the real expenses for production of specific groups of agricultural products which will be the basis for determining the accepted expenses per product group and thus different PIT will be paid depending on the product sold;
2. Returning of the old system where the personal income taxation will be again based on a cadastral income;
3. Establishment of a working group which will include representatives of the FFRM, Processors and Traders of agricultural products which will be technically supported by EPICENTAR and AgBiz Program and demand clarifications and changes of the current taxation system;
4. AgBiz should be a facilitator for other discussions for the working group which will be created and provide technical and logistical support in the process of conducting the changes;

5. Better enforcement of the control for cash payment however, only if the entrance of the “informal” cash within the country is eliminated as it poses significant disloyal competition for the domestic buyers of agricultural products;
6. Modification of the PIT Law in a manner that the income from agricultural activity will not be considered as income from self-employment, but as separate category and the registered IF not to be considered as self employed persons under which category the basis for calculation of the benefits is much higher compared to the other forms of farmers;
7. There is a need for modification or termination of the validity of the current Law for Agricultural Activity as it poses many problems for the producers.