

POLICY SUMMARY: TAX BREAKS FOR ORGANIC OPERATORS



OVERVIEW

This policy summary provides recommendations on why and how to provide tax breaks to organic operations. It outlines options for providing this support, followed by examples from various countries.

SUMMARY OF POLICY OPTIONS

There are various types of taxes on which tax breaks can be applied in order to give a small financial advantage to the organic sector. These can include income tax credits and deductions, and rebates or exemptions for certain other taxes. Options include:

- tax credits on organic farm income;
- favorable deductions for organic operations when calculating income;
- property tax exemptions or reductions for certified organic land;
- time-limited income tax holidays;
- exemptions or reductions on import tariffs and export taxes for organic products.

RATIONALE

A tax break targeted to organic operators is a way to incentivize organic businesses and favor private investment (and potentially attract foreign investment) in organic operations, in recognition of the positive market externalities that those operations generate. Although tax breaks for organic operators may be subject to qualifying criteria and conditions, one advantage of tax breaks is that they do not distort so much the production and business choices and they leave operations the freedom to make investment decisions based on market opportunities. Reducing income tax is a way to increase return to capital and labor, and therefore to encourage more investment, as well as job creation in the organic sector.

A low tax level on the organic production and processing sectors also has the effect of increasing international competitiveness and therefore favoring export activities, or import substitution, while still remaining within the realm of WTO-compatible measures.

One advantage of tax incentives is that they do not require an actual expenditure of funds by the government. Although the economic impact of an expense and a missed income should normally be equivalent, for political and other reasons it may be easier for the government to agree to provide a tax benefits for organic



operators than to agree to dedicate a specific budget line for expenses towards the organic sector. Especially if a limited budget has been allocated to support the organic sector, tax incentives may come on top of this budget.

SCOPE

Tax breaks for organic operators can be implemented at all stages of development of the organic sector. They are however only suitable for the contexts in which there is an agreed-upon definition of what is organic (who can be the beneficiaries of tax exemption) and this requires either an organic regulation or an officially referenced organic guarantee system.

Tax breaks for organic operators are feasible to obtain in any culture of government intervention on the agricultural sector. A tax break may be an easier measure to install politically, than a subsidy.

POLICY OPTIONS

Tax credits on organic farm income

Tax credits allows certain taxpayers to subtract the amount of the credit from the total they owe the state. So it produces a similar benefit as a grant, for those who pay taxes higher than the amount of the tax credit. Tax credits can be set a fixed amount or a

percentage of tax owed. Governments may give tax credits to all qualifying organic enterprises or they can tailor tax credits to provide incentives for the development of certain points on organic value chains e.g. to organic processors if the policy objective is to develop value added organic operations.

Deductions in calculating taxable income

Organic operators may be given exceptional deductions for certain operating expenses such as the cost of organic certification or higher standard deductions applied to income prior to calculating taxes owed. For example, the cost of organic certification, normally a fully deductible business expense, could be deductible at 150% of cost. Or, a general deduction from income could be applied to all qualifying organic operations, which will lower their taxable income.

Exemptions or reductions for property taxes

Regional and municipal levels of government usually levy property taxes. To encourage sustainable, organic agriculture and other business development, these governments may fully exempt or lower property taxes on certified organic property. However, it is only effective to encourage conversion or maintenance in organic production if there is a requirement that landlords must pass



down the full amount of the benefit to their tenants (the tenants are the ones usually making the decision about farming organically or not). The same caution applies to property used for organic processing, if leased.

Income tax holidays

A measure to support the initial conversion or start of an organic business is to set a temporary income/profit tax credit or even provide complete tax exemption for a limited time period. This was done for example in Tunisia, with an income tax holiday period of 10 years for new organic operations.

Exemptions or reductions on import tariffs and export taxes for organic inputs and products

In a few countries that levy export taxes, governments may exempt or lower tax rates for certified organic exports. Applying reduced import taxes (import tariffs) to organic products or organic inputs is another option. This policy measure has not been widely used to date as it requires the creation of separate Harmonized System (HS) codes for organic products. However, with the trend toward developing separate organic HS codes, this option could potentially be taken up.

COUNTRY EXAMPLES

France has had a system of tax credit for organic farmers since 2006. It is aimed at providing more incentives to farmers with very small land area, who would not otherwise receive significant support from the area payment subsidies. The tax credit is reserved for producers for whom at least 40% of their farm income came from certified organic production. The payment is a flat EUR 2,500. However, the tax credit can only be combined with area payment subsidies if the total does not exceed EUR 4,000 per farm. In 2009, France also allowed municipalities to exempt organic certified land from the property tax for a period of 5 years, with an obligation for landowners to

pass down the full amount of the tax exemption to their tenants in the case of leased land.

United States: The first state-funded tax credit for organic farmers was created in June 2016 with the approval of the Hawaii's (House) Bill 1689 CD 1 that allocates EUR 1.8 million to offset, in the form of tax credits, the 25% of cost of organic certification not covered by the federal certification cost share program and for any organic farming equipment, materials, or supplies. The bill gives farmers up to EUR 44,800, in tax credits for qualifying expenses. The legislative goal is encouraging a younger generation of



farmers in Hawaii, as many farmers approach the age of retirement.

Tunisia: The government introduced a number of measures to attract local and foreign investors to organic agriculture. One such measure is a full income tax exemption through the first ten years and another 10% exemption thereafter. In the same vein, full tax relief is provided on income and benefits reinvested as part of the starting capital in organic agriculture companies.

Argentina: The government announced in March 2016 the complete removal of export taxes on organic products of plant origin, in order to promote organic exports. This decree was published in the Official Gazette, and applies to organic products that are certified under the national organic law.

Norway: Certain organic products such as processed vegetables, juices and baby foods have a reduced import tariffs as compared to the same conventional products.

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