

Typology of the Portuguese Farm Holdings and Taxation Regimes

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Typology of the Portuguese Farm Holdings and Taxation regimes

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Abstract

The study describes the evolution, since the Portuguese accession to the European Community, in 1986, of the different types of farm holdings (household-farms, corporations, co-operatives and other legal forms), using the Agricultural Census data. In addition, the experience of agricultural taxation in Portugal in the context of the ongoing policy debate about the tax structure and tax reform affecting agricultural producers is addressed for different categories of farms. The research also examines the problems associated with tax regimes. A major problem has been the measurement of the actual taxable farm income. The different measures to estimate farm income are explained for the various taxation regimes.

Key Words: Agriculture, Holdings, Legal Personality, Portugal, Taxes

1 INTRODUCTION

European agriculture is described as highly heterogeneous in its structure in terms of farm organization, size and legal form, etc. This heterogeneity is often attributed to different historical routes, regional and national technological developments, political strategies and social environments among the countries. Thus, agricultural structures change over time. They are affected by a multiplicity of factors such as historical, cultural, political, economic, and technological conditions. They are also characterised by continuous adjustments to market and technological processes which in their turn are affected by a policy framework. Thus, policies (agricultural, fiscal, etc.) can alter agricultural structures establishing a set of incentives for farm adjustments to external (market conditions), but they also can impede those structural adjustments by, for example, artificially increasing the profitability of an activity in relation to the other productions activities. This affects the allocation of the productions factors land, labour and capital.

The impact of agricultural structures has not been widely explored. The impact of agricultural structures on rural development appears to be significant. A farm structure based on large latifundia as in the Ribatejo and the Alentejo regions of Portugal does not have the same effect on economic and social development in the countryside as an agriculture based on a large number of family small farms as in the Entre Douro e Minho and Beira Litoral Regions.

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This study describes the evolution of the different types of farm holdings (household-farms, corporations, co-operatives and other legal forms), using the Agricultural Census data. In addition, the experience of agricultural taxation in Portugal in the context of the ongoing policy debate about the tax structure and tax reform affecting agricultural producers is addressed for different categories of farms. The research also examines problems associated with tax regimes. A major problem has been the measurement of the actual taxable farm income. The different measures to estimate farm income are explained for the various taxation regimes.

2 METHODOLOGY

To accomplish the objective of this paper a descriptive analyses was performed using the 1979, 1989 and 1999 Agricultural Census data. This data was analysed for the Continental Region of Portugal. Madeira and Açores Islands were not included in the analyses because as autonomous regions they have their own legislation and fiscal system. The evolution of the agricultural units in terms of structural change, diversification, and taxation is analysed and associated to the on-going structural and fiscal policies.

The observation unit used in the Census was the agricultural holding. The agricultural holding is defined as “a single unit both technically and economically, which has single management and which produces agricultural products. Other supplementary (non-agricultural) products and services may also be provided by the holding” Commission Decision, 97/418/EC. Likewise, the holder of the holding is the natural person or the legal person on whose account and in whose name the holding is operated, and who is legally and economically responsible for the holding, i.e., who takes the economic risks of the holding.

The agricultural holders are categorised according to the following legal typologies used for statistics and fiscal proposes. The autonomous holder is a sole holder (a farmer), this is, a single individual and natural person, who runs the farm using mostly family work without contracting salaried workers. It can be identified as a typical family-farm holding. On the contrary, the entrepreneurial farmer is also a sole holder that employs mainly paid work on his farm.

Whenever the agricultural holder is not a sole person but an entity, this is a legal entity other than a natural person but having the normal rights and duties of an individual, such as the ability to sue or becoming, the holdings are classified as: corporations, co-operatives, “baldios”, and other entities. They can be both public and private legal persons.

The corporations include all stock corporations (enterprises having issued shares), non-stock corporations with limited liabilities, and other types of formal and legally organised units. They also include no-formal organised companies, as is the case of a farm run by both father and son run the farm, and other no-formal organised companies with a complex set of relationships.

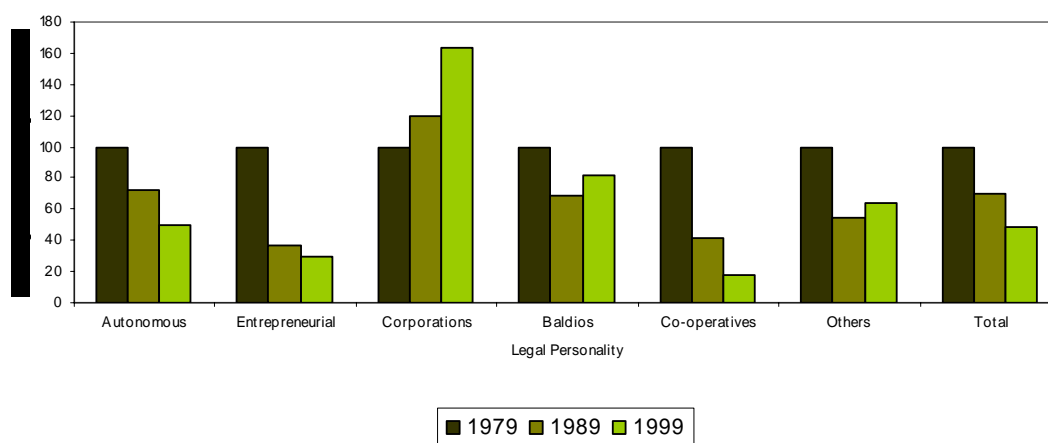
Co-operatives include agricultural units organised according to the Cooperative Code and Legislation. They are co-operatives in legal terms, which can be both producers of agricultural products and producers and processors of agricultural products. They also are Collective Production Units formed in the Agrarian Reform Zone but still not legalised as co-operatives. One should notice that this category was individualized in the 1979 and 1989 Agricultural Censuses but in the 1999 Census it became included in the “Other entities” category explained below. “Baldios” are public holdings owned and explored by a community without the possibility of being sold.

Other entities include public and private holdings, owned by Central and Local Administrations, such as Experimental Investigation Stations, Agricultural Public Schools, Prisons, and Public Institutes, and other State-owned farms. They also include the churches, monasteries, private schools, foundations (bodies administering funds for purposes that are often social or philanthropic), etc.

3. RESULTS

Figure 1 shows the evolution of the number of agricultural holdings according to the legal personality. A diminution of more than 51% of the total number of holdings is observed from 1979 to 1999. In general, every class of holder decreases with exception of the Corporations, which increase about 64%. From 1989 to 1999, an increase of about 38% is observed in the Corporations. The Baldios and the Others categories also verified a small increase. The increase in the total number of Baldios is the results of an increase verified only in the Trás-os-Montes region of Portugal. The increase observed in the Others category is mainly the result of the large augment of the number of foundations.

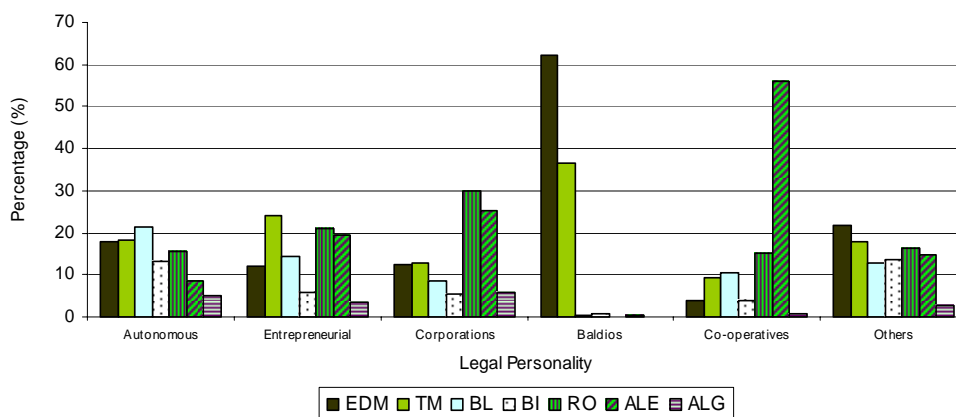
FIGURE 1 - Evolution of the Number of Agricultural Holdings (1979-1999)



Source: Agricultural Census, 1979, 1989, 1999, INE.

A large decrease of Co-operatives, more than 80% is verified from 1979 to 1999. This decrease results from the decrease observed from 1979 to 1989 more than 58% and from 1989 to 1999, 58,0%. It occurs mainly in the Zone of Agrarian Reform as shown in Figure 2.

FIGURE 2 - Legal Personality by Agricultural Region, 1999



Source: Agricultural Census, 1999, INE.

After the 1974 Revolution (the Revolution of the Carnations), the large latifundia in the South of Portugal were occupied by the workers and transformed in Collective Production Units and in Production Co-operatives. In 1975-1976, they represent 83% of the total number of co-operatives, occupied about 1 200 000 ha (14% of the Portuguese total area), and employed more than 71 000 regularly and non-regularly workers. The extinction of the Agrarian reform stated with the devolution to the old property owners of part of the land of the co-operatives. The old landlords could reclaim a certain area (usually the one with better production capabilities).

FIGURE 3 - Evolution of the Number of Agricultural Holdings in the Alentejo Region.

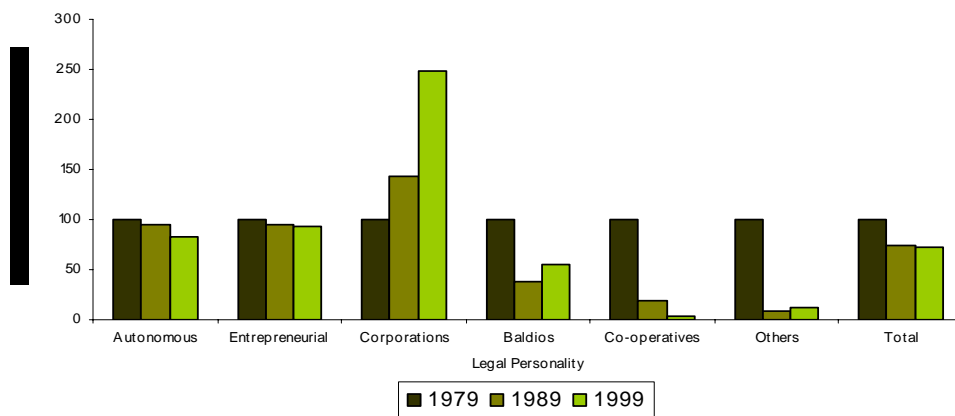


Source: Agricultural Census, 1979, 1989, 1999, INE.

The restitution of the land was gradually according to the policy orientations of the different governments. Most of the land of the co-operatives was rented (to the State) and they had an enormous difficulty to access to long-term credit to modernise their production system. A special short-term credit to finance the co-operatives was created in 1975.

Figure 4 shows that the decrease in the total number of holdings is also accompanied by a decrease in the total utilised agricultural area but in a smaller degree. For instance, the total utilised agricultural area decreased about 25% from 1979 to 1989 but from 1989 to 1999, it decrease less than 4%. This decrease is observed for all the categories of the holdings except in the case of the corporations which increase by more 72%. One should note that most of the land of the co-operatives in the Zone of the Agrarian Reform returned to the previous property owners as corporations.

FIGURE 4 - Evolution of Utilised Agricultural Area



Source: Agricultural Census, 1979, 1989, 1999, INE.

Consequently, from 1979 to 1999, the average size of the holdings increase from about 7 hectares to 10 hectares but it maintains from 1979 to 1989, as shown in Table 1. This is the results of the decreases in size of the holdings in the Co-operatives, the Baldios and the Others categories, which is compensated by the size increase in the sole holders (autonomous and entrepreneurial), and in corporations.

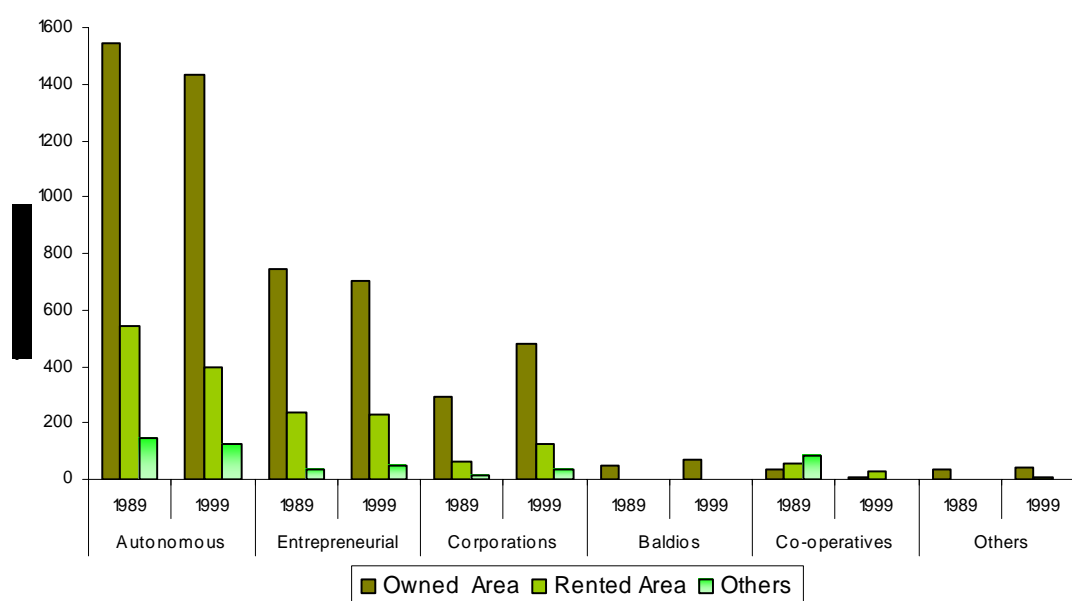
TABLE1 - Evolution Average Size per Holding (in hectares)

Year	Legal Personality						Total
	Autonomous	Entrepreneurial	Corporations	Baldios	Co-operatives	Others	
1979	3	20	82	357	1508	419	7
1989	4	51	99	196	678	66	7
1999	5	62	124	240	368	75	10

Source: Agricultural Census, 1979, 1989, 1999, INE.

From 1989 to 1999, a generalized increase in the size of the holdings, with the exception of the co-operatives, is observed. Figure 5 shows the evolution of land tenure for each category of legal personality from 1989 to 1999. In absolute values, the owner-farmed agricultural area, the rented-farmed area, the shared-farmed area (all forms of tenure) decrease for every type of legal personality with exception of the corporations which corroborates the previous analysis.

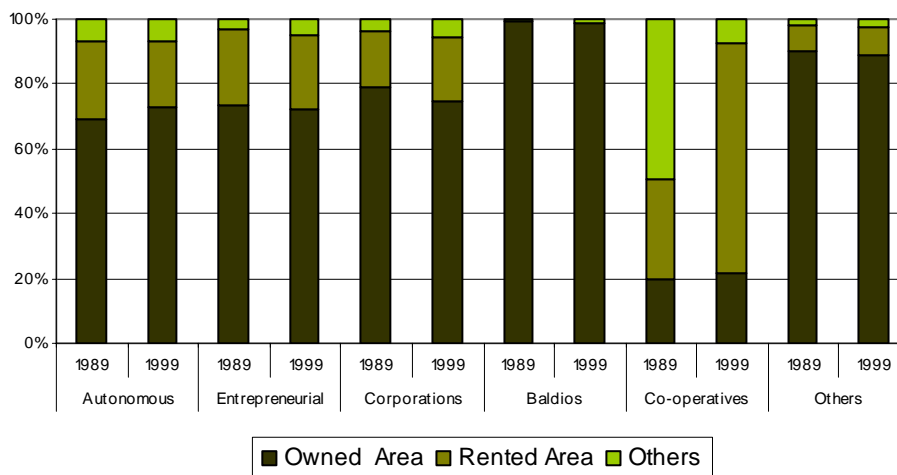
FIGURE 5 -Evolution Land Tenure (in hectares)



Source: Agricultural Census, 1989, 1999, INE.

However, the analysis of land tenure in relative terms shows different results as Figure 6 presents. In this case, co-operatives show the biggest changes from 1989 to 1999, rented land increased from 31% to 71% of the total utilised agriculture area. The other types of legal persons appear to maintain the same proportion of land tenure.

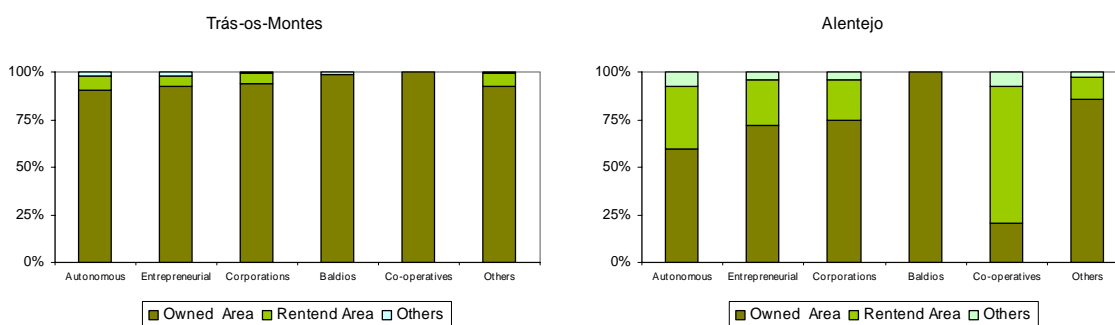
FIGURE 6 - Land Tenure per Legal Personality (1989 and 1999)



Source: Agricultural Census, 1989, 1999, INE.

The types of land tenure vary enormously across regions as is illustrated in Figure 7 for the Trás-os-Montes and Alentejo regions.

FIGURE 7 - Land Tenure for the Trás-os-Montes and Alentejo Regions -1999



Source: Agricultural Census, 1989, 1999, INE.

This figure shows that, for 1999, the owned land dominates in every type of legal form in Trás-os-Montes, whereas rented land has a considerable importance in the Alentejo region, in special for Co-operatives.

In terms of accounting systems, the holdings are grouped according to the system used. Some holdings do not use any accounting system; some use a simplified record of the revenues and the cost, and some use an organised or official accounting system. As shown in Table 2, most of the holdings do not used any accounting system. However, an important increase is observed from 1989 to 1999. In relation to accounting requirements, the actual income tax reform permits that the holders having agricultural revenues less than five times the annual minimum wage do not pay farm income taxes (usually small autonomous and entrepreneurial holders). This implies that these holdings do not follow any accounting system. In fact, most of the small family holdings fall in this situation (more than 80% of the total number of holdings). The holders with revenues larger five times the annual minimum wage but with an amount of sales less than about 150 000 € or other revenue less than about 100 000€ have to follow at least the simplified accounting system. In relation to these

holdings, the actual tax regime only takes into account the total amount of sales (20%) and the other revenues (65%) without taking into account any costs for tax calculation proposes. This appears to be a more penalising regime in terms of taxation. However, some holdings (5%) still follow this regime since it does not require a specialised technician to execute it. The small holders also follow this regime because VAT requirements and not just for tax income requirements.

Sole holders (autonomous and entrepreneurial) with sales and other revenues greater than the amounts above mentioned, stock corporations, co-operatives, foundations are obliged to follow the organised or official accounting system (Official Accounting Plan) which can only be executed by an official accounting technician. Under this system, the taxable income is calculated taking into account all the costs occurred.

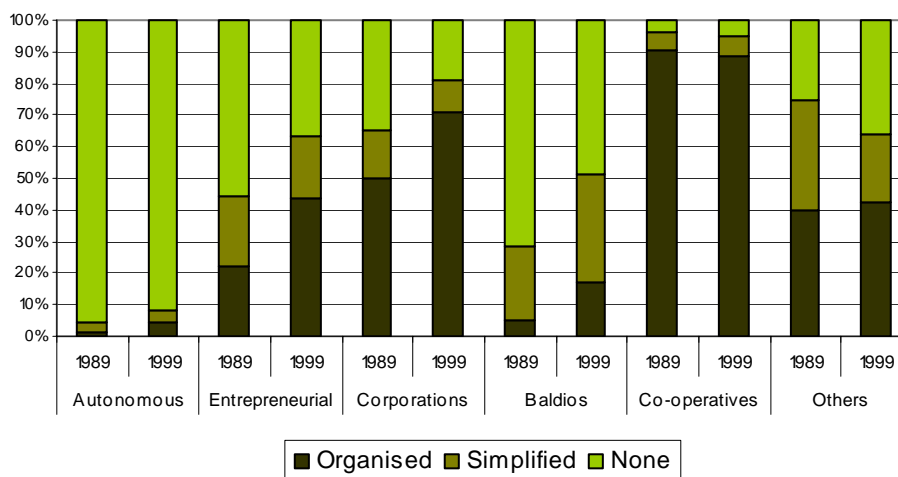
TABLE 2 - Number of Holding per Accounting System

Year	Organised		Simplified		None		Total	
	Number	%	Number	%	Number	%	Number	%
1989	14 619	3	19 368	4	516 892	94	550 886	100
1999	26 275	7	17 903	5	337 985	88	382 175	100

Source: Agricultural Census, 1989, 1999, INE.

The number of holdings using an organised accounting increase by 80%. The increase is observed for every type of legal personality as shown in Figure 8. It is in the co-operative group that the organized accounting is more expressive. However, it is in the societies and entrepreneurial holdings that this accounting system becomes more important in relative terms. Most of the autonomous holdings do not follow any type of accounting system. The simplified accounting systems has more expression in the Baldios, the members of the managing board usually are obliged to show to their land partners the obtained results.

FIGURE 8 - Accounting Systems According to Legal Personality

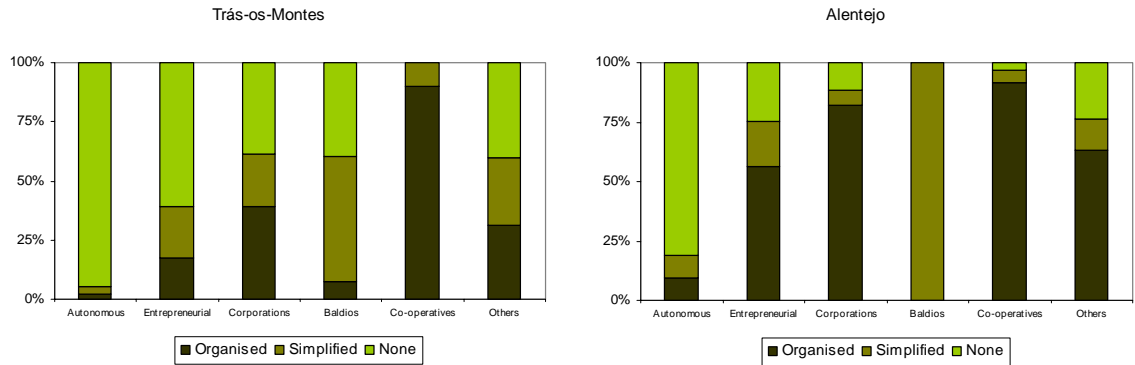


Source Agricultural Census, 1989, 1999, INE.

As expected, the adoption or no adoption of a specific accounting system varies considerably across regions, according to the repetitiveness of a specific category of organisation. For instance, the use of the organised accounting system is more generalised in the Alentejo region in which there are more corporations and co-operatives as shown in Figure 9. On the other hand, the inexistence of an accounting system is more evident in Trás-os Montes in which the autonomous holdings predominate. The interpretation of Figure 9 in

relation to the category of Baldios should be cautious as in the Alentejo region there is only one holding.

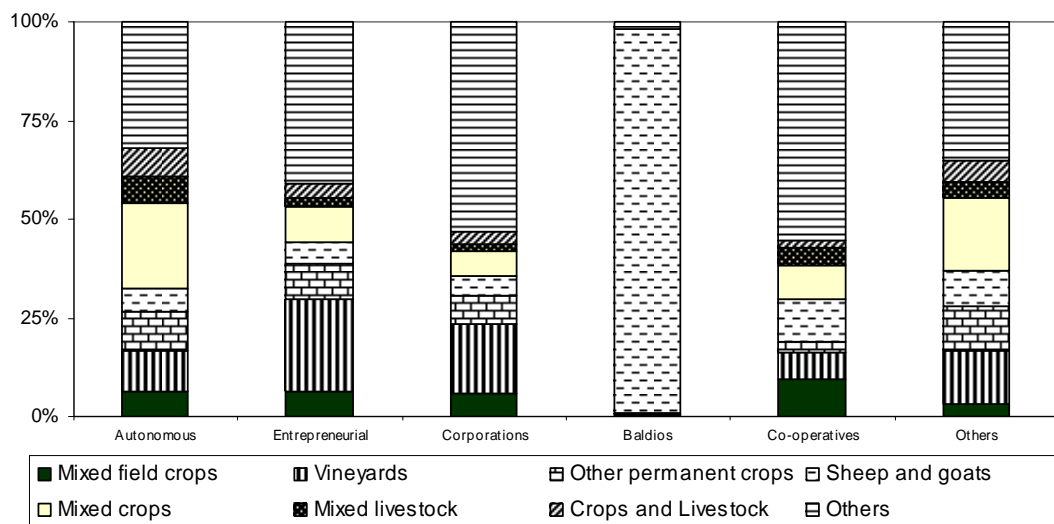
FIGURE 9 - Accounting Systems in the Trás-os-Montes and Alentejo Regions -1999



Source: Agricultural Census, 1999, INE.

In relation to the economic-technical orientation, this is, the relative weight of the gross margin of the each production activity in the total gross margin of farm holding, most of the Portuguese farm holdings are not production specialised. As shown in Figure 10, vineyard production is the most important activity in the specialised farm holding. This occurs for all the legal personalities with exception of “Baldios” in which sheep and goats are produced. The economic-technical orientations specified in the Figures are present in more than 75% of the holdings, the economic-technical orientations of remaining 25% holdings are included in the “Others” category of economic-technical orientations.

FIGURE 10: Economic-Technical Orientation According to Legal Personality (1999)



Source: Agricultural Census, 1999, INE.

The comparison of the technical economic orientations between the regions shows different panoramas. For example, whereas in the northern regions of Portugal (e.g. Entre Douro e Minho, Beira Litoral) the holdings without specialization predominate, in the southern regions (e.g. Alentejo e Algarve) the specialised holdings in production activities, such as cereals, sheep, olive-trees and fruits, have a higher representation. In addition and as expected, the highest production diversity occurs in the autonomous legal personality.

Corporations and co-operatives show a higher production specialization. The different sizes of the farms holding across regions and legal personalities might explain the production differences.

4. CONCLUDING REMARKS

Portuguese agricultural structures are very heterogeneous in result of the different historical, cultural, political, economic, and technological conditions. For instance, the south of Portugal (Ribatejo and Alentejo) is characterised by the existence of vary large stock corporations and the north is characterised by the existence of many small family autonomous holders. Nevertheless, this structure changes over time.

The analysis of the Agricultural Census allows one to conclude that farm size is increasing and the number of farm holdings is decreasing. Autonomous holder continues the most important legal person. However, the number of stock corporations and foundations (others) is increasing. On the other hand, the number of agricultural co-operatives is decreasing. Political reasons might explain the decrease in co-operatives whereas tax income regimes might explain the increase in foundations. Both reasons appear to explain the increase stock corporations.

Different taxation regimes are followed according the agricultural legal personality. Large corporations are more capable to follow the Official Accounting Plan, which appears to have more vantages in the calculation of the taxable income. The simplified accounting system usually followed by small commercial enterprises seems to be more penalising. It does not take into account the cost in the calculation of the taxable income.

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