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VALUE - ADDED TAX (VAT) AFFECTION TO THE LITHUANIAN ECONOMIC COMPETITIVENESS. IT'S APPLICATION IN THE FOOD SECTOR

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Abstract

VAT is an indirect tax paid by the subscriber in accordance with the purchase - the sales net. In the European Union the VAT system is strictly regulated, because this tax has a significant influence over the development of the EU's single market and production by ensuring adequate competitiveness. The main document regulating the sale of production, including agricultural and food products, the VAT regime across the EU is 2006, dated 28 November the European Council Directive 2006/112/EB on the common value added tax system. This Directive regulates practically all aspects of the application of VAT. In addition to this threshold, there are still some of the European Council and European Commission directives on the specific application of VAT to the hearings. Lithuania VAT introduced in 1994, at 1 day, entry into force of the Republic of Lithuania Law on value added tax Nr. I - 345$_5$ which operated until 2002 30 June. Since 2002, entered into force on 1 July the new version of the VAT Act. Latest version of the Law 2008 of December 18 and 23 days of the year 2009, June 26 at substantially changed the standard VAT rate and abolished the former VAT exemptions.

EU single market, with free movement of goods, the flat agricultural commodity prices, the growing influence of neighbouring countries have a comparative advantage. Realizable at the same price, indirectly, the Polish producers processors a competitive advantage on reduced VAT rates as compared to Lithuania the producers, processors. In addition, the zloty exchange rate fall in a competitive advantage over Lithuanian food products has increased (example: the price 100Lt/kg, Lithuanian producer - processor, realized the product remains 69Lt/kg, while Poland - 100Lt/kg, it is more 45proc). The 5 or 9 per cent rate of VAT is practically the price difference becomes a zloty exchange rate fluctuation. Value added tax increase had a negative impact on Lithuanian and vegetable sector. Trading company, with its significant market power, the VAT increase on to the shoulders of producers. Since their accession to the EU (2004) declared in the areas of vegetables decreased by 54.8 percent (from 7.4 to 3.3 thousand hectares), potatoes - 51.1 percent (from 44.8 to 21.5 thousand hectares), and potato and the purchase price for vegetable growers do not have the favourable conditions of production, compared with Poland and other EU countries where this sector is developed. A lower which would help reduce prices for consumers and improve the farm financial situation. In addition, a lower rate would encourage smaller producers to register as VAT payers. Cereals and bakery products in use in Lithuania, compared to other EU countries, is the smallest and continued to decrease.

This fee must be examined in the context of other taxes as the VAT rate must be optimized according to the head of household purchasing. If the VAT rate raises to national size in comparison with other EU and third countries, deriving tax revenues decline due to lower national consumption and production of cash for imports, so that they benefit from a reduced VAT. Such as agriculture and food products, Estonia VAT rate is 86 per cent of the Lithuanian level, in Poland 77 per cent, 26 per cent in France, Germany 39 per cent of the Lithuanian level. Unbalanced VAT other taxes, and other countries to reduce government revenues for a variety of fraud. For example, sales on the markets or pillaging vat of false accounting. In only nine months in 2009 in accordance with state tax office data is not paid 154 million LT.

Keywords :

Value added tax, food sector, regulation, marketing, management.

Introduction

Relevant to the topic of analyzing the value added tax (VAT), the standard rate of Lithuania 21 per cent, respectively, an increase in agricultural and food products in retail prices and these products are purchased less, because the population is limited demand. The large vat trumpet depressed competitive differences between the retail and marketing the bazaar, which do not pay VAT. Neighbourhood countries such as Poland and other EU VAT rates for agricultural and food products lower than our country, so coming from other EU countries' agricultural and food products are cheaper, and our population chooses the products of those countries.

The subject matter is the VAT rates of agricultural and food products in Lithuania, neighbourhood and other EU countries.

The aim of the article is to submit proposals for the application of VAT for Lithuanian agricultural and food products.

Objectives of the study:

1. Perform VAT of agricultural and food - rate applicable in Lithuania and neighbourhood countries comparative analysis.
2. Investigate the individual EU countries, VAT rates applied to influence the Lithuanian agricultural and food products competitiveness.
3. Submit bids for the main agricultural and food products in the VAT rate applied in Lithuania.

Topics scientific novelty is that for the first time a complex issue in the VAT rate applicable in Lithuania and foreign countries, differences in the influence of agricultural and food products competitiveness. According to the theory of elasticity theory justifying a possible reduction in the VAT Lithuanian agricultural and food prices and their impact on the consumption of the population. The practical significance is that following an analysis, based on the best possible to assess the change in revenues and sales - scale dynamics in the VAT rate applicable to the agricultural and food products in Lithuania.

Test methods - statistical analysis, surveys, calculation.

The study period is 2004 - 2009.

Value added tax (VAT) rates for agricultural and food regulation in the European Union and Lithuania

In the European Union the VAT system is strictly regulated, because this tax has a significant influence over the development of the EU's single market and production by ensuring adequate competitiveness. The main document regulating the sale of production, including agricultural and food products, the VAT regime across the EU is 2006, dated 28 November the European Council Directive 2006/112/EB on the common value added tax system. This Directive regulates practically all aspects of the application of VAT. In addition to this threshold, there are still some of the European Council and European Commission directives on the specific application of VAT to the hearings. Lithuania VAT introduced in 1994, at 1 day, entry into force of the Republic of Lithuania Law on value added tax Nr. I - 345_5 which operated until 2002 30 June. Since 2002, entered into force on 1 July the new version of the VAT Act. Latest version of the Law 2008 of December 18 and 23 days of the year 2009, June 26 at substantially changed the standard VAT rate and abolished the former VAT exemptions.

Lithuania key 5 percent VAT rate to 31 December 2008 date has been applied to those agricultural and food products and services:

- fresh and chilled meat comestible offal (other than poultry meat and edible offal);
- fresh, chilled, frozen, deep frozen poultry meat and offal comestible;
- live, fresh and chilled fish;
- agricultural companies and cooperative companies (cooperatives) - agricultural services, agricultural entities, provided their members;
- organic food (from 1st January 2006).

The reduced VAT rate of 9 per cent under the existing tax regime applicable to residential construction, renovation, insulation services, paid for by state and municipal budgets, preferential loans granted and the state special funds (1). This rate does not apply to agricultural and food products while at the time was the debate in the Government of the Republic of Lithuania and the Lithuanian Seimas of the Republic of 9 percent tariff on such products.

EU countries, VAT rates, the practice shows that two - thirds of the countries apply reduced rates of agricultural and food products.

The VAT standard rate discounts and their impact on the budget revenue and Lithuanian agricultural and food products competitiveness

For the purposes of the statutory standard rate of VAT rebates, equal to 13 percent, previously referred to the agricultural and food products in 2004, Lithuania has not received a budget of 52.6 million LT (see table 1), but in 2009 a standard rate in the retail trade volume fell more than 20 percent. This is almost lost in the processing industry of employment and income taxes.

Analyzed food products of different VAT rates form the application of unequal competitive opportunities for all producers. Meat, fish producers of organic products, and agricultural entities providing services to agriculture because their production is subject to preferential VAT rate of 5 per cent to secure a competitive advantage in the market, compared with other food and non - food products. Despite the reduced 5 percent VAT rate applied to meat economically justified, because the meat producers to give a competitive advantage with regard to price competition, both locally, at both EU and third country markets.

Table 1. The existing VAT rate and deviation of the rate reduction in the food sector of Lithuania

Product group	Sold on the domestic market		VAT standard rate		The existing VAT rate		The amount of VAT at the standard rate		The amount of VAT under the current rate		Deviation of the rate reduction	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
2	3	4	5	6	7	8	3	4	3	4	3	4
Fresh and chilled meat comestible offal	287,5	637,7	18	19,6	5	19,6	51,75	125,0	14,4	125,0	37,4	0,0
Fresh, chilled, frozen, deep frozen poultry meat and offal comestible	117,3	217	18	19,6	5	19,6	21,1	42,5	5,9	42,5	15,2	0,0
Meat preparations	560,7	856,5	18	19,6	18	19,6	100,9	167,9	100,9	167,9	0,0	0,0
Potatoes, vegetables, fruits and berries	63,9	128,7	18	19,6	18	19,6	11,5	25,2	11,5	25,2	0,0	0,0
Milk and milk products	715,3	1122	18	19,6	18	19,6	128,8	219,9	128,8	219,9	0,0	0,0
In all	**1744,7**	**2961,9**	x	x	x	x	**314,0**	**580,5**	**261,4**	**580,5**	**52,6**	**0,0**

Source: Agricultural production in buying and production in 2004 and 2009. Department of Statistics at the Lithuanian Goverment .- V., 2005, 2009.

Subject to standard VAT rate of 21 percent of Lithuania produced agricultural and food products to reduce the competitiveness of the fact that in some neighbouring countries and the EU, with which it has intensive trade relations, food and supplies for agricultural output, which determine the production cost and value, lower VAT rates (see table 2).

Table 2. VAT rates juxtaposition of agricultural and food products and resources in agricultural output in the individual Member

Countries	VAT foods		VAT Resources Agricultural output	
	2004	2009	2004	2009
Lithuania	18 - standard, 18 - Agriculture and Food (100 percent from the standard), 5 - raw meat, raw poultry, fish, organic products, some agricultural traders (28 percent from the standard)	21 - standard, 21 - Agriculture and Food (100 percent from the standard)	5 - mineral fertilizers	21
Latvia	18 – standard (100 percent Lithuanian Level), 18 - Agriculture and Food (100 percent from the standard), 5 - Specialized Baby Food	21 – standard (100 percent Lithuanian Level), 21 - Agriculture and Food, 10 - Specialized Baby Food	18 (100 percent Lithuanian Level)	21 (100 percent Lithuanian Level),
Estonia	18 – standard (100 percent Lithuanian Level), 18 - Agriculture and Food (100 percent from the standard)	18 – standard (86 percent Lithuanian Level), 18 - Agriculture and Food (100 percent from the standard)	18 (100 percent Lithuanian Level)	18 (86 percent Lithuanian Level)
Poland	22 – standard (122 percent Lithuanian Level), 7 - Agriculture and Food (32 percent from the standard and 39 percent from the Lithuanian Level), 3 – meat (14 percent from the standard and 60 percent Lithuanian Level)	22 – standard (105 percent Lithuanian Level), 7 - Agriculture and Food (32 percent from the standard and 33 percent from the Lithuanian Level), 3 – meat (14 percent from the standard and 14 percent Lithuanian Level)	3 - (17 percent from the Lithuanian Level)	3 - (17 percent from the Lithuanian Level)

France	19,6 - standard (109 percent Lithuanian Level), 5,5- Agriculture and Food (28 percent from the standard and 31 percent from the Lithuanian Level), 19,6 - food products sold in bars, restaurants, cafe, liquor (100 percent from the standard and 109 percent from the Lithuanian Level)	19,6 - standard (93 percent Lithuanian Level) 5,5 - Agriculture and Food (28 percent from the standard and 26 percent from the Lithuanian Level), 19,6 - food products sold in bars, restaurants, cafe, liquor (100 percent from the standard and 93 percent from the Lithuanian Level)	5,5 - (31 percent from the Lithuanian Level)	5,5 - (26 percent from the Lithuanian Level)
Germany	16 - standard (89 percent Lithuanian Level), 16 - all food sold in restaurants, all beverages except milk and drinking water (100 prcent from the standard and 89 percent from the Lithuanian Level), 7 - all agricultural and food products sold in stores (44 percent from the standard and 39 percent from the Lithuanian Level)	19 - standard (90 percent Lithuanian Level), 19 - all food sold in restaurants, all beverages except milk and drinking water (100 percent from the standard and 89 percent from the Lithuanian Level), 7 - all agricultural and food products sold in stores (37 percent from the standard and 33 percent from the Lithuanian Level)	7 - (39 percent from the Lithuanian Level)	7 - (39 percent from the Lithuanian Level)

Source: VAT Rates Applied in the Member States of the European Community/European Commission Directorate General Taxation and Customs Union Tax Policy/DOC/2008/2004 – EN. - Brussels, 2004, September.
VAT Rates Applied in the Member States of the European Community/European Commission Taxation and Customs Union, Situation at 1st January 2009/ DOC/2401/2009 – EN. – Brussels, 2009.

In table 2, at the party food, which are subject to Lithuania by 21 percent VAT rate of 74 percent in France taxed less, and in neighbouring Poland - 67 per cent, Germany - 29 percent less. Estonia and Latvia in food products exempt from VAT do not apply. Thus, the rate of VAT in terms of Lithuanian products is less competitive in the EU in the Western markets. In particular, deprived of Polish products.

EU single market, with free movement of goods, the flat agricultural commodity prices, the growing influence of neighbouring countries have a comparative advantage. Realizable at the same price, indirectly, the Polish producers processors a competitive advantage on reduced VAT rates as compared to Lithuania the producers, processors. In addition, the zloty exchange rate fall in a competitive advantage over Lithuanian food products has increased (example: the price 100Lt/kg, Lithuanian producer - processor, realized the product remains 69Lt/kg, while Poland - 100Lt/kg, it is more 45proc). The 5 or 9 per cent rate of VAT is practically the price difference becomes a zloty exchange rate fluctuation.

Reduced VAT rates for food use two - thirds of EU countries, but their rate is very close to rates in neighbour countries. This is to avoid unnecessary market similarities between the other party, and to ensure that the first necessity of foods unlikely to be able to purchase and use of even low - income citizens. Lithuania has arisen in the opposite situation - the crisis period, market participants who pay taxes lose their users of internal market. They compete with the informal economy business.

Since the beginning of 2009 changed the system of VAT rates had the greatest impact on Lithuanian food for consumers, which, compared to other EU countries are among the most family budget issuing food. VAT rates increase very significant on the meat sector, where almost half of the output VAT increased by 16 percent points in 2009, January 1, the abolition of 5 per cent reduced rate of VAT of fresh meat processing plant turnover within nine months of this year compared with last year's same period, decreased by more than 20 percent. Given the increase in VAT in the Lithuanian market surged Polish meat and its products are sold free of VAT to pay or to avoid it.

It should be noted that last year's market traders turnover of pork, beef and meat products accounted for about 322 million LT, or 23 percent of the total annual sales of meat establishments amounts. Neighbour countries, a reduction in the VAT rate on meat and meat products, producers lose competitiveness of the Lithuanian landed production, and meat products import growth means that the Lithuanian meat processing industry lost their jobs, did not create new work places, not transferred to the budget of the tax, the country has entered the lowest quality meats, while the state budget did not direct the greater part of the VAT tax.

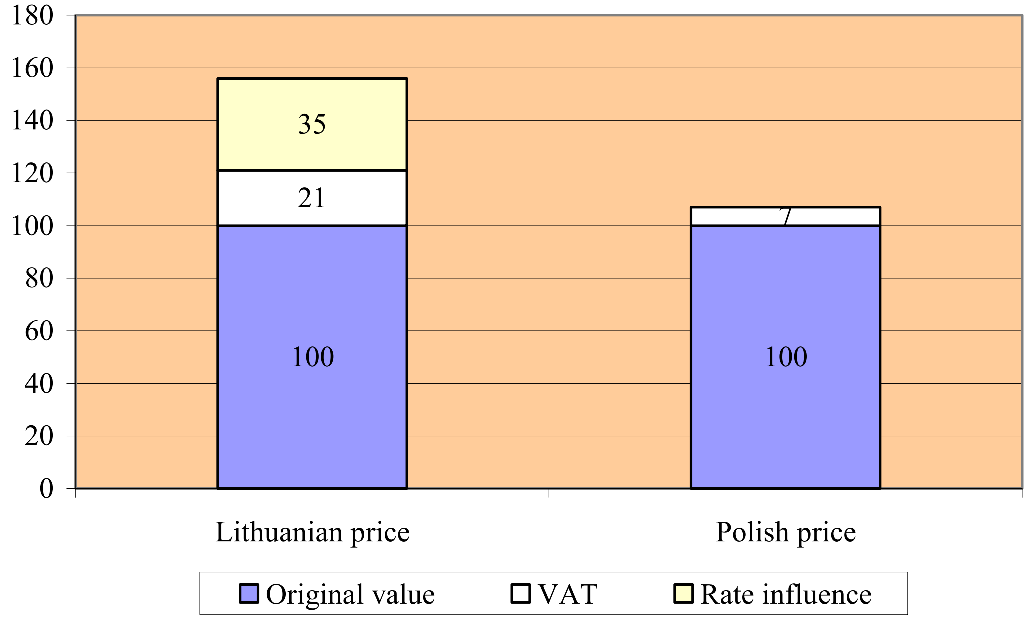

Fig. 1. Different VAT rates and the zloty exchange rate impact on the competitiveness of the consumer in respect of, in percent

The high volume of imports of meat products is lagging behind not only the fraction of Lithuanian meat processing plants operating (do not use business plans, the capacity limited to meat processing plants and other development), but also Lithuanian farmers - are falling purchase prices, the destruction of beef raw materials base.

Polish produce competitive advantages highlighted the Lithuanian markets. Increasing the VAT rate difference between the Polish and Lithuanian markets, we support the illegal import of Polish products to the Lithuanian market or where meat sales is exempt from VAT (not accounting markets and cash registers). Currently in Lithuania there are more than a hundred from markets where there is trade in meat and meat products (57 percent) and vegetables and fruits (33 percent). Most products sold in markets in neighbour Poland, although the official meat and vegetable imports from this country diminishing. Thus, the country starts thriving informal trade.

Value added tax increase had a negative impact on Lithuanian and vegetable sector. Trading company, with its significant market power, the VAT increase on to the shoulders of producers. Since their accession to the EU (2004) declared in the areas of vegetables decreased by 54.8 percent (from 7.4 to 3.3 thousand hectares), potatoes - 51.1 percent (from 44.8 to 21.5 thousand hectares), and potato and the purchase price for vegetable growers do not have the favourable conditions of production, compared with Poland and other EU countries where this sector is developed. A lower which would help reduce prices for consumers and improve the farm financial situation. In addition, a lower rate would encourage smaller producers to register as VAT payers. Cereals and bakery products in use in Lithuania, compared to other EU countries, is the smallest and continued to decrease. Due to the large shadow tax business in this industry is about 15 percent. Excessive VAT forced some companies to retreat into the shadows and in only nine months of the year 2009 in accordance with state tax office data is not paid 154 million LT.

Conclusions and recommendations

The end of 2008 the Polish zloty depreciation against sterling and a reduced VAT rate has substantially altered the abolition of Lithuanian consumer choice. The loss of a substantial part of the tax of Polish meat products purchase in Poland. Increasing the rate difference between the Polish and Lithuanian markets, we support the purchase of Polish products and illegal imports into the Lithuanian markets.

Polish produce competitive advantages in the form of the informal economy highlighted the business market place. Bazaar is the trade area, where taxes compared to the retail trade is different almost a fifth.

On the critical situation of reduced consumer purchasing power and to avoid increasing the shadow effect on the business it is appropriate to reduce the meat and vegetables VAT rate.

Great Cities market traders, trading in meat and meat products (except farmers and meat - producing companies), to review and establish adequate incomes flat income tax.

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