

Soil Health and Fertility, financial assistance of around 7 €/ha is offered to promote the use of organic manure and provided on the basis of project proposals received from States. However, several reports indicate that although subsidies are allocated, they are not reaching farmers.

g. Tax breaks for organic operators

Political justification

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 such 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.

Tax breaks can also be a useful complement to area payments, especially to support organic farmers with very small land area who would not otherwise benefit substantially from area payment support (e.g. this was installed in France in 2006 and continues up to now). Income/profit tax breaks may also favor those with active management over those who are only interested in subsidies.

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 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.

Suitable contexts

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 constitutes organic (who can be the beneficiaries of a 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 in the agricultural sector. A tax break may be an easier measure to install politically, than a subsidy.

Tax breaks for organic operators can be relevant to any rationale for policy support to organic agriculture.

Possible modalities of implementation

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. In principle, a tax credit is a financial incentive that 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. Depending on which tax the credit is applied to, and what can be subtracted from the tax (a fixed amount, or certain eligible expenses), the effect of the tax will actually support one or the other aspects of the organic supply chain (e.g. production, processing, export, import). The ultimate version of a tax credit is a tax exemption: where the state renounces tax on organic operators or on the sales of the products targeted by the measure.

If the goal is to encourage organic production, and to support small organic farmers, a tax credit on the farm income/profit tax can be set. This can be of a fixed amount per farm (e.g. in France). An alternative to a fixed amount of tax credit is to allow organic farmers to deduct from their final income tax amount certain types of eligible farm expenses (e.g. certification or equipment). In practice, this acts as an income subsidy for organic farmers, but it may also (depending on the calculations) encourage farm investments in organic production. It is however only relevant in contexts in which farmers are paying significant income/profit taxes.

It is also possible to set a temporary income/profit tax credit or even complete tax exemption to support the initial conversion or start of an organic business. This was done for example in Tunisia, with an income tax holiday period of 10 years for new organic operations. The Philippines foresaw a similar approach with an income tax holiday and exemption for seven years for organic operations and input producers. However, this has not been implemented to date.

Another scenario is exempting certified organic land from the property tax. This is a decision that can be taken at the regional or municipal level, as this is the level usually levying such taxes. 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).

Sometimes, fiscal advantages like some of those mentioned above may not be set specifically for the organic sector, but organic investments (investments by organic operators) may be officially recognized as fulfilling the eligibility criteria for more general schemes that aim at providing fiscal advantages for “green” investments. This

was for example the case in the Netherlands with the MIA and Vamil schemes (see country examples).

Another aspect of taxation is import tariffs and exports taxes. Exempting organic exports from export taxes is one option. Applying reduced import taxes (import tariffs) to organic products or organic inputs is another. This has not been a widely used policy measure to date (but see the Norwegian example), as it requires the creation of separate Harmonized System codes for organic products. There are however other aspects of the import tariff policies that can, to some extent, favor organic imports as compared to conventional imports. In terms of market access, organic products have not yet per se received preferential access over conventional products, and there are significant tariffs on many agricultural products in most developed countries. However, many agricultural tariffs are set on a per quantity basis (\$/ton) so high-value goods (like organic) face a lower percentage tariff in percentage of their value. Since 1995, many agricultural products are imported under tariff rate quotas, with in-quota imports benefiting from very small import tariffs, while imports outside the quota may face very high tariffs to the extent that they would prevent any over-quota imports from coming in, which is often the intention. Depending on how these quotas are administered, they may favor, or not, organic imports. There are many ways to administer the quotas and countries have preferential treatments for some of their trade partners and some of the products. It is a very complex topic, and one that is subject to much politics (especially in the contexts of bilateral trade agreements that are increasingly being negotiated between countries or blocks of countries) but it may be worth looking into possible pro-organic policies on that level as well.

[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 area payment subsidies. See more information in the Best Practice Example textbox.

In the **USA**, 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 the 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 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.

In **Costa Rica**, the law foresees a range of tax exemptions for organic farmers. However, to date, only the tax exemption on the purchase of equipment, vehicles and machineries has been implemented.

In **Norway**, certain organic products such as processed vegetables, juices and baby foods have a reduced import tariff as compared to those on the same conventional products.

Best practice example(s)

Best Practice Example: Tax Credit for organic farmers in France

France supports organic producers within the context of the EU Common Agricultural Policy, mainly through conversion and maintenance area payments, like in other EU countries. However, since 2006, the French government added tax credit measures on top of the conversion and maintenance subsidies. In particular, this measure was deemed to provide more targeted support to very small farmers who received very little subsidy under the area payment scheme.

The tax credit was reserved for producers for whom at least 40% of their farm income came from certified organic production. The amount of the tax credit was first set at EUR 2,000 per producer and per year. In 2009, the tax credit was increased to EUR 4,000 per producer, but was then lowered again to EUR 2,500 in 2011. In any case, the tax credit could only be combined with area payment subsidies if the total did not exceed EUR 4,000 per farm, meaning that the tax credit measure is only relevant for farmers receiving less than EUR 4,000 area payment subsidies per year.

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.

Both aforementioned tax credit measures are however constrained by the general EU CAP framework. Indeed, they are “extra” support (so called “*de minimis*” aids) not foreseen in the EU Common Agricultural Policy. The EU imposes a limit to financial support measures that can be granted by Member States to their farmers on top of the subsidies foreseen in the CAP. Before 2013, the *de minimis* maximum was fixed at EUR 7,500 for 3 years. In 2014, it was raised to EUR 15,000. The tax credit needs to be added to all other *de minimis* support received by the farmer, whose total cannot exceed those amounts.

The tax credits have proved to be a relevant measure to support certain types of organic operations. Overall, the challenge of those measures, within the overall French subsidy system, is their administrative complexity. The amounts and means of calculation have changed several times depending on overall national budget debates within the French Senate. Additionally, the calculations of the *de minimis* limits, and other requirements regarding combination of several forms of support, make the application process quite complicated for farmers. FNAB, the French federation of organic farmers, has developed guidelines and tools to help organic farmers understand those procedures.

Pitfalls and challenges

There are cases (such as The Philippines, and partly in Costa Rica) where a range of tax exemption measures for organic operators have been authorized by the government but they have never been effectively implemented due to lack of uptake by the responsible ministries (e.g. custom and finance ministries) and because the administrative procedures involved are too complex to set up.

Even when the measures are effectively implemented, there remain important challenges in their uptake by operators. As with other types of subsidies that require beneficiaries to apply through an administrative process, the main bottleneck in the uptake of such support is the lack of information for potential beneficiaries: often, a significant share of farmers do not benefit because they are not aware. Communication targeted to organic farmers should accompany such schemes.

Aside from the lack of information, beneficiaries may also not apply due to the cumbersome bureaucracy needed to obtain the tax exemption (e.g. in the Philippines, organic food and input producers are exempt from all income taxes levied by the national government for a period of seven years, but in practice very few requests have come from small producers due to bureaucratic application procedures).

Corruption is another risk. The opportunity for corruption is much greater for tax incentives regimes where officials have wide discretion in determining which investors or projects receive favorable treatment. The potential for abuse is great where no clear guidelines exist for qualification. Therefore the qualifying criteria should be simple, specific and objective to minimize the discretion afforded officials that grant the incentives and to provide guidance to tax authorities charged with monitoring and enforcing the tax incentive regime.

h. Support for organic farm investment

Political justification

For any commercial sector, the quantity of private investments is a decisive factor for sector growth. Organic agriculture is no exception to this economic reality. This is particularly true for the conversion process: conversion to organic farming can be costly in terms of initial investment such as new machinery, adaptation of livestock facilities, integration of on-farm processing facilities, or organizational investments such as setting-up internal control systems for smallholder group certification. Additionally, there is another form of “investment” required during the transition period in the sense of building soil fertility and recovering from the initial yield drop: those absorb much needed financial resources at a time where the other more physical investments are also needed. This makes farm investment support a very important element to facilitate conversion.