# Tax Breaks for Organic Operators

**Pacific Organic Policy Toolkit**
http://www.organicpasifika.com/poetcom

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## Political justification

A tax break targeted to organic operators is a way to incentivize organic businesses and favour 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. 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 the area payment support.

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.

### ***Suitable contexts***

*Stage of sector development*: Tax breaks for organic operators can be implemented at all stages of development of the organic sector.

*Regulatory context*: Tax breaks areonly suitable to 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.

*Culture of government intervention*:  Organic operator tax breaks are suitable where there is a culture of government intervention in agricultural markets.

*Policy objectives*: The action is relevant across all main policy objectives for organic farming.

### ***Possible modalities of implementation***

Governments may, in their tax codes, authorize either tax exemptions or tax reductions for all organic operations.  Another option is for governments to grant a tax “holiday”, over a limited time period, to new investments in organic operations. In any case, clear criteria and requirements for proof should be established.

***Potential pitfalls and challenges***

In order for this measure to be effective it must be well publicized not only to existing organic operators but also to potential new operators. Also, the application process must be manageable for the operators. These challenges are illustrated in the case of the Philippines, which created a seven-year tax holiday, starting from the date of organic registration of operators and organic input producers, on all national income taxes. Despite the generous provision, there were few applications do to lack of awareness and the bureaucratic requirements of the application process.

***Countries examples***

Tunisia: To foster investment in the organic sector, a number of measures to attract local and foreign investors were introduced. This includes a full income tax exemption through the first ten years and another 10% exemption thereafter.

Argentina: The government of Argentina has announced in March 2016 the removal of taxes on organic products of plant origin in order to promote exports. According to a document published in the country's Official Gazette, an export tax rate of 0% was approved for all products considered organic under national law and which have official documentation. Argentina has 3.2 million hectares of organic crop production throughout 23 provinces and is ranked second globally in terms of the amount of hectares a country uses for organic farming nationwide. The country exports 170,500 metric tons (MT) of organic products each year. Its main export markets include the United States and the European Union.

Hawaii, USA: In 2016 Hawaii’s legislature has passed a bill that provides a tax credit to farmers to offset the 25% of cost of organic certification not covered by the federal certification cost share program and for any equipment, materials, or supplies necessary for organic production of agricultural products that are specified in a farm’s organic system plan. The bill gives organic farmers up to US$ 50,000 in tax credits for qualifying expenses, including application fees, inspection costs, and supplies or equipment needed to produce organic products. The legislative goal is encouraging a younger generation of farmers in Hawaii, as many farmers approach the age of retirement.