

THE ECONOMIC AND LEGAL NATURE OF THE MINIMUM TAX LIABILITY

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Abstract. The relevance of the study of the economic and legal nature of the minimum tax liability is due to several factors. Firstly, being relatively new for Ukraine, this type of tax has not yet been sufficiently studied by scholars. Secondly, due to the specifics of the object of taxation, the introduction of the minimum tax liability significantly affects the taxation of farmers – owners of agricultural land and land users, producers of agricultural products, who are among the most vulnerable segments of the population. Thirdly, such a reform of the tax burden on business entities in agriculture, as one of the sectors most affected by Russia's armed aggression, requires a thorough analysis of its timeliness and appropriateness. This necessitates a study of theoretical and practical aspects, potential risks of introducing the minimum tax liability, as well as the formulation of proposals for solving problematic issues in this area, which is the purpose of the study. The research methodology includes a number of methods of scientific knowledge: the philosophical (dialectical) method, general scientific methods (the method of analysis and the formal logical method), as well as methods related to special scientific methods (formal legal and comparative legal). Results. The study of the economic and legal nature of the minimum tax liability concluded that there is a tendency to expand the range of taxpayers. In particular, at the expense of individuals – members of private farms. The article proves that such innovations lead to the loss of existing tax privileges for farms and increase the tax burden for these entities. The authors identify the risks of introducing a minimum tax liability, including incentives for farmers to alienate agricultural land or transfer it to other persons, alienation of farmers from the main means of production, and increased unemployment. It is established that the introduction of the minimum tax liability under the existing conditions is a violation of the fundamental principles of tax legislation of Ukraine. The generalisations obtained can be used to amend the tax legislation and will be useful in conducting scientific research on tax and agricultural legal relations.

Keywords: agricultural producers, taxation, land payment, private households, farmers' rights, agricultural land, tax policy.

JEL Classification: K34, K38, Q15, Q24, R14, R52

1. Introduction

The full-scale Russia's invasion of Ukraine has had a negative impact on absolutely all spheres of public life and economic activity. One of the sectors most affected by the war was agriculture, which suffered huge losses and damage. According to the latest data published by the Kyiv School of Economics, the damage caused to the physical assets of agriculture alone is about 10.3 billion USD, and the economic costs are about 70 billion USD. Additionally, between 12.8 and 26.6 billion USD is needed to finance the

demining of agricultural land. Ukraine's agricultural sector needs an estimated 56.3 billion USD for reconstruction and rehabilitation (Nivievskyi & Neyter, 2024). And these figures are obviously not final, as the war continues and brings new destruction and losses every day. Studies show that the total losses incurred by Ukrainian agriculture as of December 2023 already amounted to more than a third of the total fixed capital accumulated by the sector by February 2022. To put it another way, in fact, a third of Ukraine's agriculture has already been destroyed

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in the more than two years of war. The distribution of losses by category is shown in Figure 1.

It is clear from the above that agricultural business entities are currently in a difficult situation, when the risks associated with the war have been added to the already "traditional" difficulties of agricultural production. In this situation, the state plays an important role in improving the situation, as it should formulate a balanced policy of supporting agriculture and facilitating the conditions for carrying out relevant activities. In this context, the optimal tax burden on agricultural producers is of great importance. This increases the relevance of research into the state of legal regulation of taxation in agriculture, analysis of legislative innovations in this area to identify problematic aspects and develop proposals for overcoming them, which is the purpose of this article. The main objective of the paper is to study the new procedure for collecting a number of taxes – the minimum tax liability and the potential consequences of its introduction for the most vulnerable categories of agricultural producers, owners/users of agricultural land, in particular private farms.

2. Analysis of Recent Researches and Publications

The issue of agricultural taxation has always been in the field of view of scientists of various industries, including legal experts. Given the dynamics of economic, social, and legal changes, which largely negate the results of scientific research over time, the focus will be on the achievements of scientists in recent years.

In particular, Kovalchuk I., Melnyk V., Novak T., Pakhomova A., studying the Ukrainian and world experience of legal regulation of agricultural taxation, believe that the system of preferential taxation in agriculture is one of the main instruments of state

support for agribusiness. The authors substantiate the need for a differentiated approach to taxation of agricultural producers. According to the authors, it consists in the introduction of the inclusion of income from the sale of agricultural products as an object of taxation of tax privileges for those entities engaged in the cultivation of grain crops (Kovalchuk et al., 2021). From the point of view of other researchers, the optimal level of tax burden on agricultural enterprises is not only a direction of state support, but also ensures positive dynamics of business activity and contributes to the achievement of socio-political stability (Kostornoi et al., 2021). Sarapina O. and Yeremian O. emphasise the need to reform the taxation system of agricultural enterprises. The main argument for this position is levelling the competitive environment, overcoming imbalances in the structure of agricultural production in favour of small and medium-sized enterprises that are socially oriented (Sarapina & Yeremian, 2021). The issues of optimising the taxation of small agricultural producers as those with significant problems with material and technical resources, staffing, high production costs, and difficulties in accessing markets have also been the subject of scientific research. For example, Kononenko L., Atamas O., Nazarova H., Selishcheva E., Kononenko S., supporting the approach to taking into account the specifics of agricultural activities, substantiated the need to create innovative and integrated structures to assist small agricultural producers in choosing the optimal taxation system for them and conducting the taxation procedure itself (Kononenko et al., 2022). Interesting from the point of view of the subject of this study is the work of Yushko S., who studies the special taxation regime for agricultural enterprises from the beginning of its introduction in 1999 to 2022. As a result, the author concludes that the special taxation regime still

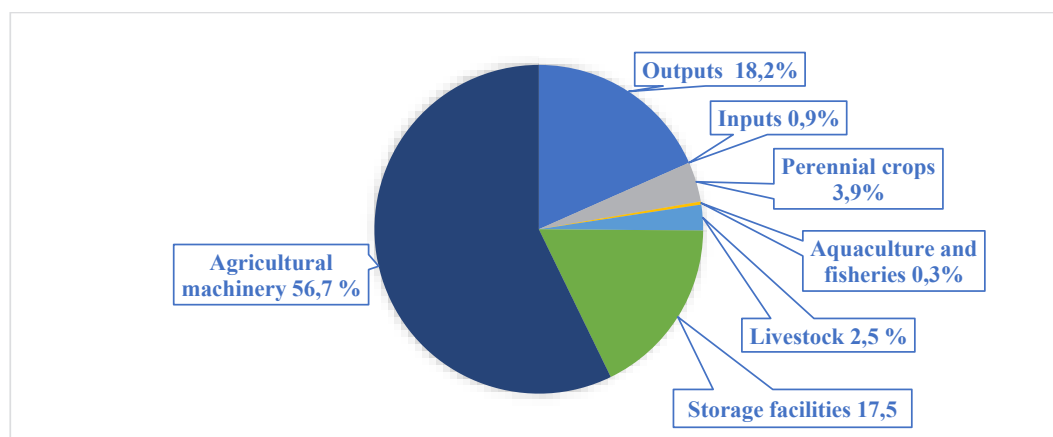


Figure 1. Losses in Ukrainian agriculture caused by the war (as of December 2023)

Source: Neyter R., Zorya S., Muliar O. (2024) *Agricultural War Damages, Losses, and Needs Review*.
URL: https://kse.ua/wp-content/uploads/2024/02/RDNA3_eng.pdf

remains a priority for most agricultural enterprises, despite changes in the conditions/rules of taxation and the gradual reduction of the benefits and advantages of such a regime. S. Yushko also points to an increase in tax pressure on agricultural producers due to the increase in tax rates by several times, the introduction of land taxation based on indexed valuation, and the introduction of a minimum tax liability (Yushko, 2022).

Thus, experts are virtually unanimous in their opinion that it is advisable to maintain special preferential taxation of agribusiness, which would take into account sectoral specifics, including the interests of small agricultural producers, small- and micro-enterprises.

3. Methodology

Achievement of the goal and solution of the tasks set by the authors of the article was made possible by using a combination of methods of scientific knowledge. The research methodology included the philosophical (dialectical method), general scientific methods – formal and logical, and analysis. Given the subject and object of the study, the authors also used special scientific methods – formal legal and comparative legal methods. The use of the dialectical method made it possible to identify the trends in the development of legal regulation of taxation of owners and users of agricultural land plots in its interconnection with economic and social factors of agricultural development. The formal and logical method contributed to the formulation of the conclusions of the work and also allowed to reveal the content of violations of the basic principles of tax legislation when introducing the minimum tax liability. The method of analysis is applied to review the developments of scientific doctrine on taxation in agriculture, as well as to identify contradictory provisions of legal acts regulating relations in the field of taxation (in particular, in terms of the minimum tax liability). The formal legal method was used to clarify the content of the legal provisions of the relevant regulatory legal acts. The comparative legal method was adopted to compare legislative approaches to taxation in agriculture.

4. Results and Discussions

4.1 The Concept of Minimum Tax Liability

In 2021, with the adoption of the Law of Ukraine "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Ensuring the Balance of Budget Revenues" on November 30 (The Law of Ukraine "On Amendments to the Tax Code of Ukraine and Other Legislative Acts of

Ukraine to Ensure the Balance of Budget Revenues" No. 1914-IX of 2021), the tax system of Ukraine underwent significant changes due to the introduction of a new procedure for the collection of taxes such as income tax, single tax (ST) and personal income tax (PIT) by calculating (in certain cases) the minimum tax liability (MTL). The legislator understands the MTL as "the minimum amount of tax liability for the payment of taxes, duties, payments, the control over the collection of which is vested in the controlling authorities, related to the production and sale of own agricultural products and/or ownership and/or use (lease, sublease, emphyteusis, permanent use) of land plots classified as agricultural land (sub-cl. 14.1.114-2 of clause 14.1 of Article 14 of the Tax Code of Ukraine), which are located outside settlements". Despite the fact that the legislation establishes a number of grounds when the minimum tax liability is not charged (clause 38-1.2 of Article 38-1), the majority of land of private farms, commercial agricultural production, and land shares (units) are subject to taxation.

The procedure for determining the minimum tax liability is set out in Article 38-1 of the Tax Code of Ukraine (The Tax Code of Ukraine, 2011). Its amount depends on the normative monetary valuation of the land plot, the number of calendar months during which the land plot is owned, leased, or used on other terms (including emphyteusis) by the taxpayer, as well as the coefficient "K", which may be set at different levels for different years. For 2024, this coefficient is 0.05. Moreover, in 2022 and 2023, this coefficient was 0.04, according to clause 67 of subsection 10 of section XX of the Tax Code of Ukraine. This means that there is a tendency to increase the amount of the minimum tax liability. The preferential coefficient "K" in the amount of 0.025 for 2024 is established only for single tax payers of the fourth group – individual entrepreneurs who operate exclusively within the framework of a farm (clause 38-1.1.3 of Article 38-1 of the Tax Code of Ukraine).

The introduction of the innovation in the form of a minimum tax liability was justified by two main factors. The first was the need to de-shadow the land lease market, as about 30% of leased land in Ukraine is in "grey" lease – used by farmers unofficially, and payments to the land share owner are made in cash or in kind (e.g., grain) (How will unit owners pay the minimum land tax liability?). The second is to bring the income of hired employees of agricultural enterprises out of the "shadow". This result was expected, since the amount of the minimum tax liability is payable, reduced by the amount of personal income taxes and military duty paid on income from the sale of agricultural products grown on the land plot for which the amount of the minimum tax liability was calculated, as well as the land tax and

the Group IV single tax paid from such land plot. On the other hand, under such conditions, all benefits from concealing hired labour relations and improper registration of relations on the use of agricultural land plots are lost.

This approach has been criticised by scholars. In particular, Yushko S. points out that the calculation of the minimum tax liability does not take into account the benefits granted to single tax payers (Article 293 of the Tax Code of Ukraine), but rather calculates it on a general basis. The authors also agree with Yushko S. that there is no direct link between lower labour costs (which will usually lead to the need to pay additional taxes up to the minimum tax liability) and the concealment of the real number of employees. As a lower level of labour intensity can occur with a higher level of technological sophistication of the enterprise, the use of more productive modern machinery, equipment, technologies, etc. (Yushko, 2022)

4.2 Potential Risks of Introducing a Minimum Tax Liability

The need to pay the MTL is established for persons whose activities are directly related to the production and sale of agricultural products grown on agricultural land. These include: owners, tenants, users on other terms (including emphyteusis) of the relevant land plots. In other words, the tax burden on individuals who cultivate their land plots on their own (primarily members of private farms) is increasing.

This, in turn, will encourage farmers to sell or lease their land. Moreover, in the latter case, the minimum tax liability should be paid by the lessees (users) (clause 38-1.3 of Article 38-1 of the Tax Code of Ukraine). This trend is confirmed by the facts: according to a study of the land market in Ukraine conducted under the USAID Rural and Agricultural Development Programme, in the fourth quarter of 2023, the vast majority of agricultural land sale and purchase transactions (94%) were concluded in relation to land for commercial agricultural production, which is subject to a moratorium (48% of transactions) and land for private farming (47% of transactions). As for the total volume of land lease transactions, in the Q4 of 2023, it exceeded the volume of purchase and sale transactions by 3.5 times (Land market in Ukraine, 2023).

In addition, in the authors' opinion, the application of the minimum tax provision in the process of calculating the amount of a number of taxes (as mentioned above) violates at least four principles on which the tax legislation of Ukraine is based.

Firstly, it concerns the principle of equality of all taxpayers before the law, prevention of any manifestations of tax discrimination – ensuring equal

treatment of all taxpayers regardless of social, racial, national, religious affiliation, form of ownership of a legal entity, citizenship of an individual, place of origin of capital (sub-clause 4.1.2 of clause 4.1 of Article 4 of the Tax Code of Ukraine).

As mentioned above, a significant part of owners and lessees of agricultural land (including agricultural land) is made up of such social group as farmers, in particular, persons running private farms. They are among the main producers of agricultural crop products and thus make a significant contribution to the country's food security. As of 2020, these farms produced almost 98% of potatoes, 84.5% of vegetables, 83% of fruit and berry crops, 20% of cereals and legumes, and 64.7% of grapes (Crop production of Ukraine, 2020). According to statistical data, the number of private farms has been declining in recent years (Figure 2).

The dynamics of changes in the area of land held by private farms is shown in Figure 3.

This means that people are already uninterested in establishing new private households. With the introduction of the minimum tax burden, this situation may become even worse, based on the following.

Prior to the introduction of the minimum tax liability, private farms that did not sell their own agricultural products were limited to paying land tax.

Instead, they now have to pay (under the conditions set out in the Tax Code) the minimum tax liability, which is many times higher, as such private farms are not taxpayers of the taxes by which the minimum tax liability is reduced. Table 1 shows the amount of the minimum tax liability per hectare of agricultural land. Table 2 shows a selective comparison of the land tax and the minimum tax liability per hectare of arable land.

In addition, an additional evidence of violation of this principle is the establishment of an unequal coefficient "K" for different categories of persons whose main activity is the production of agricultural products. As noted above, for individuals who run a private farm, it is 0.05, and for single tax payers of the fourth group – individual entrepreneurs who operate exclusively within a farm – 0.025 (clause 38-1.1.3 of Article 38-1 of the Tax Code of Ukraine).

Moreover, it is reasonable to talk about the violation of the principle of a unified approach to the establishment of taxes and fees, which provides for the definition of all mandatory elements of the tax at the legislative level (Article 7 of the Tax Code of Ukraine) (sub-clause 4.1.11 of clause 4.1 of Article 4 of the TCU). In this context, there are two possible approaches to understanding MTL: 1) as a separate mandatory tax element; 2) as a component of the tax calculation procedure. In the first case, the TCU does not mention MTL among such elements. Regarding the second point, the legislator develops

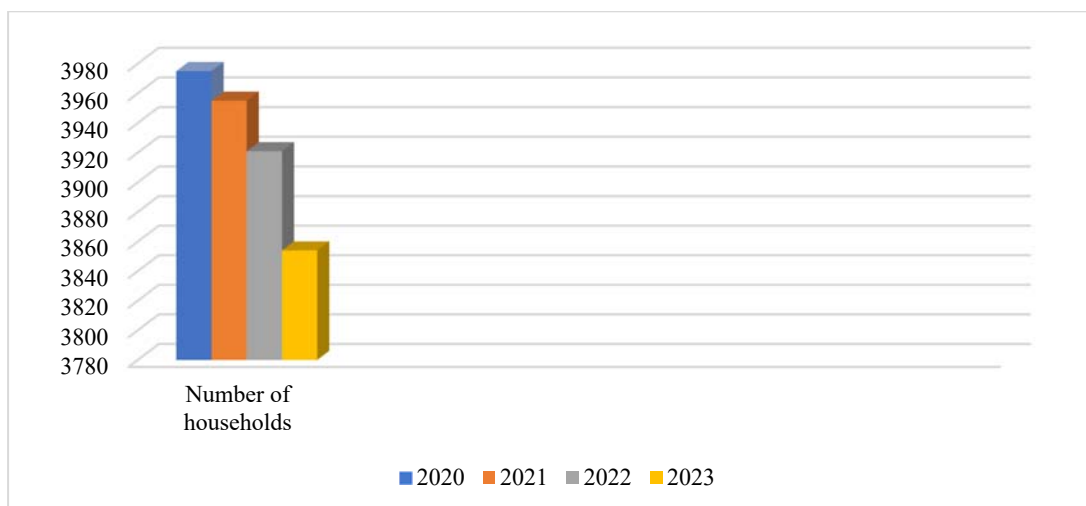


Figure 2. Number of private households

Source: created by the authors based on data from the State Statistics Service of Ukraine

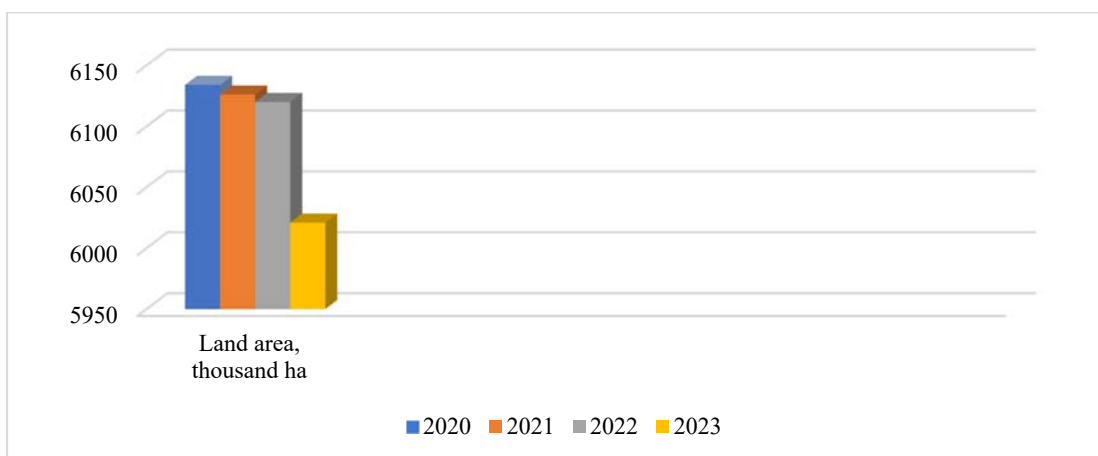


Figure 3. Area of land plots of private households

Source: created by the authors based on data from the State Statistics Service of Ukraine

a general procedure for calculating the relevant taxes, as outlined in Article 137 of the Tax Code of Ukraine for corporate income taxpayers, Article 297 for single tax payers, and Article 168 for personal income taxpayers. Additionally, specific requirements are established for calculating the amount of the Minimum Tax Liability (MTL). It is indicated that the positive difference between the total MTL and the total amount of taxes, fees, payments, and land lease expenses is included as part of the liabilities for the respective taxes, as per sub-clause 141.9.5 of clause 141.9 of Article 141 of the Tax Code of Ukraine for income tax, specifically for agricultural producers whose share of agricultural production for the tax (reporting) year is equal to, exceeds, or is less than 75%; (clause 297-1.1 of Article 297-1 of the Tax Code of Ukraine – with the ST (for owners, lessees, users on other terms (including emphyteusis) of land plots classified as agricultural land, as well as heads of family

farms)); (clause 170.14 of Article 170 of the Tax Code of Ukraine – for personal income tax (for individuals-owners, lessees, users on other terms (including emphyteusis) of land plots classified as agricultural land)). This creates a situation where the procedure for calculating the same tax is different for different categories of taxpayers. Moreover, requirements are set for the amount of these taxes, which cannot be lower than the minimum wage. The minimum taxable income is not determined only for the period for which no payment is made for land or the 4th group of the single tax (clause 38-1.2 of Article 38-1).

Finally, it should be noted that two more principles of social justice have been violated, namely, the establishment of taxes and fees in accordance with the ability of taxpayers to pay (sub-cl. 4.1.6 of clause 4.1 of Article 4 of the Tax Code of Ukraine) and tax neutrality – the establishment of taxes and fees in a manner that does not affect the increase or

Table 1

The amount of the minimum tax liability (based on the normative monetary value of agricultural land in Ukraine as of January 1, 2023, UAH / ha)

No.	Region	Arable land, fallow land	MTL	Perennial plantings	MTL	Hayfields	MTL	Pastures	MTL
1	AR of Crimea	26 005,00	1 300,25	58 459,98	2 923,00	10 145,85	507,29	4284,71	214,24
2	Vinnitsia Oblast	27 184,00	1 359,20	47 053,16	2 352,66	3 140,38	157,02	1 558,08	77,904
3	Volyn Oblast	21 806,00	1 090,30	41 349,74	2 067,49	6 039,19	301,96	4 479,47	223,97
4	Dnipropetrovsk Oblast	30 251,00	1 512,55	55 608,28	2 780,41	7 971,74	398,59	6 232,31	311,62
5	Donetsk Oblast	31 111,00	1 555,55	58 459,98	2 923,00	7 247,03	362,35	6 037,55	301,88
6	Zhytomyr Oblast	21 411,00	1 070,55	35 646,33	1 782,32	5 072,92	253,65	4 089,95	204,5
7	Zakarpattia Oblast	27 268,00	1 363,40	37 072,18	1 853,61	6 522,33	326,12	5 258,51	262,93
8	Zaporizhzhia Oblast	24 984,00	1 249,20	41 349,74	2 067,49	6 039,19	301,96	4 868,99	243,45
9	Ivano-Frankivsk Oblast	26 087,00	1 304,35	37 072,18	1 853,61	4 831,36	241,57	4 479,47	223,97
10	Kyiv Oblast	26 531,00	1 326,55	42 775,60	2 138,78	6 280,76	314,04	4 479,47	223,97
11	Kirovohrad Oblast	31 888,00	1 594,40	67 015,10	3 350,76	8 696,44	434,82	6 037,55	301,88
12	Luhansk Oblast	27 125,00	1 356,25	47 053,16	2 352,66	8 213,30	410,67	5 842,79	292,14
13	Lviv Oblast	21 492,00	1 074,60	27 091,21	1 354,56	5 797,63	289,88	4 089,95	204,5
14	Mykolaiv Oblast	27 038,00	1 351,90	47 053,16	2 352,66	8 213,30	410,67	5 842,79	292,14
15	Odesa Oblast	31 017,00	1 550,85	62 737,54	3 136,88	8 938,01	446,90	7 011,35	350,57
16	Poltava Oblast	30 390,00	1 519,50	64 163,40	3 208,17	5 556,06	277,80	4 284,71	214,24
17	Rivne Oblast	21 938,00	1 096,90	37 072,18	1 853,61	5 072,92	253,65	3 700,43	185,02
18	Sumy Oblast	26 793,00	1 339,65	49 904,86	2 495,24	6 522,33	326,12	4 674,23	233,71
19	Ternopil Oblast	29 035,00	1 451,75	57 034,13	2 851,71	6 280,76	314,04	5 648,03	282,4
20	Kharkiv Oblast	32 237,00	1 611,85	67 015,10	3 350,76	6 280,76	314,04	6 427,07	321,35
21	Kherson Oblast	24 450,00	1 222,50	37 072,18	1 853,61	5 314,49	265,72	4 284,71	214,24
22	Khmelnitskyi Oblast	30 477,00	1 523,85	52 756,57	2 637,83	6 763,90	338,20	5 258,51	262,93
23	Cherkasy Oblast	33 646,00	1 682,30	74 144,37	3 707,22	8 454,87	422,74	5 648,03	282,4
24	Chernivtsi Oblast	33 264,00	1 663,20	62 737,54	3 136,88	5 556,06	277,80	5 063,75	253,19
25	Chernihiv Oblast	24 065,00	1 203,25	55 608,28	2 780,41	8 696,44	434,82	5 063,75	253,19

Source: created by the authors based on data from the State Land Cadastre

Table 2

Comparison of land tax rates and minimum tax liability per hectare of arable land, thousand UAH / ha

No.	Region, Raion	MTL	Land tax
1	Dnipro Raion, Liáshkivka hromada, Dnipropetrovsk Oblast	1 512,55	302,51
2	Kalush Raion, Dolyna hromada, Ivano-Frankivsk Oblast	1 304,35	130,44
3	Obukhiv Raion, Myronivka hromada, Kyiv Oblast	1 326,55	132,66
4	Dubno Raion, Mlyniv hromada, Rivne Oblast	1 096,90	219,38
5	Zvenyhorodka Raion, Zvenyhorodka hromada, Cherkasy Oblast	1 682,30	336,46

Source: created by the authors based on data from the State Land Cadastre

decrease of the taxpayer's competitiveness (sub-clause 4.1.8 of clause 4.1 of Article 4 of the Tax Code of Ukraine)). However, as rightly noted in the conclusion of the Main Scientific and Expert Department of the Verkhovna Rada of Ukraine, when calculating the MTL for individuals (except for those registered as entrepreneurs), the highest coefficient is set, in fact, on a par with legal entities, which may be considered as a discriminatory approach to individuals (Opinion of the Main Scientific Expert Department of the Verkhovna Rada of Ukraine on the Draft Law of Ukraine "On Amendments to the Tax Code of Ukraine

and Other Legislative Acts of Ukraine to Ensure the Balance of Budget Revenues"). Indeed, the size of this coefficient is 0.05 for all taxpayers. The only exception, as mentioned above, is for the payers of the ST of the 4th group – individual entrepreneurs who operate exclusively within the farm. They apply this coefficient in half the amount (sub-clause 38-1.1.3 of clause 38-1.1 of Article 38-1 of the Tax Code of Ukraine).

It is impossible to disagree with the opinion of A.M. Pakholiuk that today, private peasant farms, having the highest tax burden, cannot take advantage

of the preferential tax regime, which indicates their discrimination (Pakholiuk, 2023). Thus, the legislator virtually cancels the personal income tax exemptions for individuals who receive income from the sale of agricultural products (other than livestock) grown, harvested, manufactured, produced, processed and/or processed on land plots for the purpose of running a private household and/or land shares (units) allocated in kind (on the ground). For example, if the amount of the said income does not exceed 12 minimum wages established as of January 1 of the reporting year, it is not included in the total monthly (annual) taxable income of the taxpayer (sub-clauses 165.1.24 of clause 165.1 of Article 165 of the Tax Code of Ukraine). In other words, no personal income tax is paid. With the adoption of the above-mentioned Law, the amount of personal income tax is calculated as the difference between the taxable income and the amount of mandatory payments paid during the tax (reporting) year (including: PIT and military duty on income from the sale of own agricultural products; land tax for land plots classified as agricultural land (sub-clause 170.14.5 of clause 170.14 of Article 170 of the Tax Code of Ukraine)). Accordingly, if an individual does not legally pay personal income tax and land tax (e.g., a disabled person of the first and second groups; raising three or more children under the age of 18; retired (by age) (clause 281.1 of Article 281 of the Tax Code of Ukraine), he or she must pay the minimum wage minus the military fee, which will essentially be personal income tax.

5. Conclusions

Thus, the newest tax policy of the state is aimed primarily at expanding the range of taxpayers

at the expense of agricultural producers, primarily individuals who run private farms. After all, when calculating the MTL, they lose the benefits provided by tax legislation. This also leads to an increase in the tax burden, not only for these entities, but also for almost all payers of the land tax (which is levied on agricultural land). In addition, the legislator practically encourages farmers to sell or transfer agricultural land for use by establishing a rule according to which the minimum tax liability must be paid by tenants (users) (clause 38-1.3 of Article 38-1 of the TCU). This can have a number of negative consequences for the country's agricultural sector and sustainable rural development. This includes, in particular, an increase in unemployment, redistribution of the agricultural land market and, as a result, alienation of farmers from their main means of production. All of the above will contribute to the growth of social tension in society, which is especially dangerous during the ongoing military operations in Ukraine.

It should also be noted that the introduction of the MTL violates such fundamental principles of Ukrainian tax legislation as equality of all taxpayers before the law and prevention of any form of tax discrimination; a unified approach to the establishment of taxes and fees; social justice; and tax neutrality. This indicates the lack of reliable and effective safeguards in the legislation aimed at preventing violations of citizens' rights, in particular in the tax area.

Acknowledgement. The authors would like to thank the Ministry of Education and Science of Ukraine for the opportunity to publish the results of this research.

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Received on: 21th of June, 2024

Accepted on: 19th of August, 2024

Published on: 20th of September, 2024