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PECULIARITIES OF LAND TAXATION IN KAZAKHSTAN

The theoretical foundations of land tax as an economic category and the mechanism of rent assignment are explored. The existing methods of land taxation on the rental basis are analyzed. The relationship between land rent and the indicators of agricultural land efficiency are considered.

Keywords: land; land tax; land rent; land cadastre.

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**ОСОБЛИВОСТІ ОПОДАТКУВАННЯ ЗЕМЛІ
В РЕСПУБЛІЦІ КАЗАХСТАН**

У статті розглянуто теоретичні основи земельного податку як економічної категорії та механізму отримання земельної ренти. Проведено аналіз існуючих методик земельного оподаткування на рентній основі. Проаналізовано взаємозв'язок між земельною рентою та показниками ефективності використання сільськогосподарських земель.

Ключові слова: земля; земельний податок; земельна рента; земельний кадастр.

Табл. 1. Літ. 20.

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**ОСОБЕННОСТИ НАЛОГООБЛОЖЕНИЯ ЗЕМЕЛЬ
В РЕСПУБЛИКЕ КАЗАХСТАН**

В статье рассмотрены теоретические основы земельного налога как экономической категории и механизма изъятия земельной ренты. Проведен анализ существующих методик земельного налогообложения на рентной основе. Проанализирована взаимосвязь между земельной рентой и показателями эффективности использования сельскохозяйственных земель.

Ключевые слова: земля; земельный налог; земельная рента; земельный кадастр.

Problem statement. According to the land reform in the early 1990's the Republic of Kazakhstan introduced paid land use on its territory. The tax Code of the Republic of Kazakhstan determines the land tax on the basis of indicators of cadastral valuation. In this case, the cadastral value of land is one of the key levers in the regulation of land relations between land (land owners) and the state economic policy.

The effectiveness of land management and land use depend on the economic situation in a region, the legislative framework and the level of information security. Kazakhstan's transition to market economy fosters the creation of a more efficient economic environment. However, the reforms of land relations have not led to the expected results.

Under these circumstances, the development of theoretical and methodological principles of efficient land taxation in new conditions is the objective necessity.

Literature review. In economic literature there are two opposite points of view which consider both the preservation of absolute rent and the absence of it along with differential rent. The economists of the planned economy period (Basyuk, 1959;

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Bychkov, 1968), recognized the existence of only differential rent but they didn't give scientifically based explanation of that category. Land rent was recognized only in collective production and explained the features of cooperative form of ownership. So, A.P. Bychkov (1968) noted that "the direct cause of differential rent is a monopoly of collective farming".

T.L. Basyuk (1959) believed that the main cause of "differential rent in collective farm production ... is the presence of two types of ownership: state and cooperative". In this case, the process of land rent is considered from the perspective of differences in ownership forms.

Below there are some typical interpretations describing the failure of explanations of land rent mechanism.

For example, V.R. Boyev (1986) noted: "There should be no place for the implementation of rent relations, causing the rise in the cost of agricultural products, the inefficient use of productive resources, including land".

In the studies of V.S. Nemchinov (1969), N.P. Fedorenko (1968) and others the disappearance of differential rent has been subject to exhaustive criticism. We agree with their opinion that differential rent arises from the application of social labor to limited natural resources of different quality and location, and becomes the indicator of effective use of natural resources from economic perspective.

Given the land market formation it is necessary to use the normative price of land. It will contribute to economic regulation of land relations in the transfer of land ownership, establishment of collective share of land ownership, its transfer by inheritance, donation and obtaining bank loan secured by land and in other cases.

The issues of economic and cadastral valuation of land and land taxation are discussed in the studies of M. Belej et al. (2002), S. Enemark et al. (2005), J. Henssen (1995), A.I. Ryumkin (2006) and V.M. Yanyuk (2008).

The studies of the abovementioned and some other authors (Dysenbekov, 1999; Ospanov, 2002) are the foundation of scientific knowledge about the development of theory and practice of cadastral valuation of land, its methods and regulatory framework. At the same time, changing socioeconomic conditions, as well as legislative practice demand the improvement of the regulatory and methodological aspects of land valuation to meet current requirements.

Definition of the target problem. The purpose of the study is to develop evidence-based economic standards for land valuation to improve its taxation.

For the solution of this problem the following tasks have been put forth:

- to study methodological peculiarities of land tax on the basis of the current legislation and academic literature;
- to determine the methodological approach suitable for cadastral valuation of productive land;
- to develop proposals on land taxation improvement.

Methodology and key research findings. Creation of the effective tax system in Kazakhstan is one of the basic problems of the overall socioeconomic policy as organizational principles of tax system are the basic directions of its development and management.

Tax policy major principles, in our opinion, should become: low general level of tax rates for businesses and individuals; definition of the priority sectors which are

subject to preferential taxation; maintenance of own sources for local governments; systematization of property taxes, the one of which is land tax.

Land tax takes a special place in the taxation system of Kazakhstan. Despite a comparatively small share of land tax in the total amount of profitable receipts (relative density of the given tax in budget incomes makes about 0.5% (according to the statistics of the Ministry of Finance), it represents itself as an important source in local budgets formation.

The land tax in agriculture is an obligatory annual payment which, according to the Tax Code of the Republic of Kazakhstan, is raised from tax bearers without any differentiation by their incomes as this is the payment for the right to use land.

In taxation all lands are considered depending on their special purpose designation and belonging to the following categories: 1) agricultural land; 2) land of settlements; 3) land of industrial, transport, communication, defense and other non-agricultural purposes; 4) land of protected areas, land with recreational, historical and cultural significance; 5) forest land; 6) land of ground water resources; 7) reserve lands.

Structure of the land fund of the Republic of Kazakhstan is presented in Table 1.

Table 1. The dynamics of land fund by land categories, ths ha

Land category	1991	2010	2011	Changes (+, -)	
				2011 to 1991	2011 to 2010
1. Agricultural land	218375.8	93387.6	93727.4	-124648.4	+339.8
2. Land of settlements	3747.2	23217.0	23684.1	+19936.9	+467.1
3. Land of industrial, transport, communication, defense and other non-agricultural purposes	18796.8	2 663.8	2688.0	-16108.8	+24.2
4. Land of protected areas, land with recreational, historical and cultural significance	775.1	5651.6	5755.7	+4876.5	+104.1
5. Forest land	10179.2	23048.4	23029.0	+12849.8	-19.4
6. Land of ground water resources	819.9	4096.1	4108.5	+3288.6	+12.4
7. Reserve lands	18952.3	109109.3	108181.1	+89228.8	-928.2
Total land	271646.3	261173.8	261173.8	-10472.5	-
including the land used on the territory of other states	149.8	0.9	0.9	-148.9	-
Land used by other states	993.7	11317.3	11317.3	+10323.6	-
The territory of the republic	272490.2	272490.2	272490.2	-	-

Note: compiled by the authors based on the data from the official website of the Committee on Land Management of the Ministry of Regional Development of the Republic of Kazakhstan and Statistical Agency of the Republic of Kazakhstan.

According to the statistics of the Committee on Land Management of the Ministry of Regional Development of the Republic of Kazakhstan on January 1st, 2012, the territory of the Republic of Kazakhstan was 272.5 mln ha, including the territory of 11317.3 ths ha used by the Russian Federation under the Baikonur Cosmodrome and military training areas. Also, the Republic of Uzbekistan granted to the Republic of Kazakhstan the territory in 0.9 ha for the sanatorium Chimghan. As a result, current Kazakhstan's land fund in use is 261173.8 ha.

The purpose of land tax introduction is the provision of rational land use with economic methods and formation of budgets for land management, soil fertility improvement, its protection, social and cultural development of territories and other activities.

Land tax is inseparably linked by its nature with land rent. Relationship is obvious since land tax functions as the effective mechanism of land rent and scientifically grounded land rent promote fair of rates in land tax, that is rather significant under current conditions.

The introduction of land tax has been connected with transition from the exclusive property right of state on the land to the variety of forms of land ownership, land tenure and land use. With the emergence of mixed economy disputes on land rent as a scientific category have lost purely theoretical value and have attained a big practical interest. Rent relations define the functions of land tax, and based on them, in turn, set the value of tax rates. Land tax is one (but not a unique) form of land rent. Rent is a part of land price influencing other elements of taxation in agriculture.

It is necessary to underline that in the market context land rent gets a multi-purpose economic value.

First, it is connected with changes in the system of regulation and stimulation of reproduction processes in agriculture, decreasing the volume of direct government intervention in economic activities of agricultural enterprises. This is reflected in transition from direct subsidies, grants etc. to market methods of regulation of agricultural production through the use of more flexible pricing, fiscal and monetary policies.

Second, market reforms and the introduction of various forms of land ownership expand the scope of rent relations.

Third, tenants, peasant (farmer's) economies and other forms of business begin to act as economic entities and subjects of land and market relations basing on private ownership of land.

In this regard, the regulation of tax and related rental mechanism in agriculture is of a particular economic importance. Rental mechanism is the system of land market relations including economic mechanism of realization of land property through foreclosure and distribution of rent formed as a result of land resources use.

The structure of rental mechanism includes economic levers and incentives with the help of which withdrawal, redistribution and rent assignment between state and land owners is provided. Under market economy there are two types of relations concerning rent assignment: when land owners and land users are one entity, or when they are different entities. This gives rise to 2 kinds of payment schemes for land within the uniform system of paid land use: land rent does not stand apart from income, it is subject to the recipient state annual land tax, land rent is isolated from profit in the form of rent paid by a tenant to land owner.

The fundamental prerequisite for rent relations regulation is working out the economic mechanism of rent withdrawal from all land users and landowners. Rent relations in the current context between state and business entities can be perfect in the event that market mechanism is provided by withdrawal of a part of the rent owned by state.

Improvement of rent mechanism should be directly connected with the forms and methods of withdrawal of investment income, with the view to increase the efficiency of market relations in agriculture. That can be achieved if the system of rent relations would operate in conjunction with the system of tax relations in agriculture.

The problem of withdrawal of land rent can be solved through the introduction of land tax, which size should be established on the tax rate in the absolute sum on a

unit of land area, depending on the rent size. In this case, the withdrawal of rent on the basis of land tax provides the relationship between the owner of land and the economically isolated agricultural commodity producers.

Now practice of definition of land tax on the basis of soil evaluation and its productivity considers the differential land rent connected with the natural fertility of soil and the location of land, therefore, the ground rent does not carry out its main function – the equitable distribution of additional income created by natural and artificial fertility of soils.

It is caused by the number of soil varieties, even in one household it is great and practically there is no possibility to define the necessary economic information for estimation of land and land rent. Secondly, industrial complexes have only local and limited value and to combine them into a single measure, even within each agricultural group is difficult and often impossible.

The differentiated standards of tax should have a stimulating character and contribute to the creation of necessary and equal financial opportunities for the activity of all agricultural commodity producers.

The method of calculating the base rate of land tax is based on the establishment of site quality score and "the price of one site quality score", i.e. number indicating how many products are produced on average in the area at one point of soil quality. The price of one site quality score is determined by the leading culture, as a rule, grain.

In this regard, sometimes even the worst lands, under certain market conditions, have high rates of land tax, though their site quality score is the lowest.

Improvement of land tax and the methods of its calculation in Kazakhstan are provided by many researchers: Z. Dysenbekov (1999) associated the calculation method with site quality score, B. Baimuzhayev (1998) – with the amount of income, and A. Saigadakh (1997) – depending on the price of the land, combined with the income tax.

Land tax under market conditions should be flexible and change according to time requirements. It changes due to the improvement of tax legislation and the system of land cadastre.

The State Land Cadastre represents the systematized collection of data and documents on natural characteristics of lands and the legal regime in the Republic of Kazakhstan, lands categories, which in the form of cadastral maps and plans includes geographic location information, dimensions, borders of areas, the text description of land composition, quantity and quality of land and its evaluation.

The state land cadastre provides the ranking of agricultural land to other categories of Land Fund of the Republic of Kazakhstan, the quality indicators to define the degree of suitability of land for crops cultivation, the productivity of agricultural lands and their value.

The practice of land cadastre has now a regulating character. The calculation of land tax is now based on the outdated land estimates and thus needs an update.

One of the main functions of land tax in the rent mechanism is determining the amount of rent based on objective factors and the conditions for its distribution. The principle of land tax distribution depends on the one who owns the land, whether purchased or obtained for free, what parity of different forms of land rent in its total

weight. Hence, land tax has regulating influence in market relations, that is connected, first of all, with land rent distribution, stimulation of improvement of lands of different quality for target support of agricultural commodity producers.

Thus, in relation to market economy, land tax should act as a specific form of withdrawal and redistribution of land rent, and its improvement should be attributed to the rent-oriented direction that will promote the increase of economic efficiency of production.

Land tax, as all land payments, is the indicator of the efficiency of tax system in the agricultural sector, the efficiency of land and rent relations, therefore perfection of tax should be directed, first of all, on its optimization.

Under the conditions of market economy, rent mechanism regulation in agriculture gets a special economic value. Rent mechanism is the system of land market relations including the economic mechanism of the landed property by withdrawal and distribution of the rent formed as a result of land resources use. The rent mechanism structure includes economic levers and incentives, with the help of which withdrawal and rent redistribution between state and landowners is provided.

The Land Code states that the purpose of introducing payments for land is stimulating its rational use, protection and land development, increasing the fertility of soil, alignment of an economic condition of managing on lands of various quality and location.

Differences in natural fertility of separate lands, climate, relief and manufacture specialization influence the efficiency of agricultural production. This creates unequal opportunities for individual farms in financing their expanded reproduction. However, it is the result of not only objective distinctions in natural and initial conditions, but also the consequence of the absence of market mechanism of regulation of pricing system and the imperfect taxation of land resources.

In this regard there is a need to improve forms and methods in the regulation of rental income so that they really could become the regulators of market relations in agriculture. The solution of the problem of rent regulation can be only provided if the taxation system for land use acts in a well-coordinated and interconnected system of market relations.

Differentiated specifications of tax now do not contribute to the creation of necessary equal financial possibilities for agricultural production, depending on objective natural and economic differences in the conditions of production.

Conclusions and prospects for further research. Under market economy, as a rule, the differentiated standards of tax, based on soil evaluation should help to create necessary equal financial opportunities for all agricultural productions. Even the worst lands, meeting the specific requirements of market conditions can have higher rates of land tax, though their site quality score is low.

Standard price of land and land rent instead of agricultural productivity should be put as a basis for land tax. With the change of socioeconomic conditions, the formation and development of land market there is a necessity for calculating land tax in percentage of a standard cost or from the market value of land, as it is used in most countries of the world.

The development of market mechanism and entrepreneurship facilitates radical changes in land resources management. By means of tax regulation it is necessary to

create the conditions under which it will be impossible to have unused or unprofitable lands. Also, such measures will promote the inflow of financial sources for land use improvement.

Land as the economic basis of any credit and financial system remains the core and a unique resource for improvement of the present economic situation in the country.

Thus, the land tax should provide:

- the withdrawal of actually received rent from all land users;
- the implementation of the principle of mandatory payment under the relation to all land users;
- the connection of land tax raised from a particular land user with the total value of land rent;
- the relationship between tax land and other forms of revenue withdrawals.

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