

Value-Added Tax Exemptions and Farm-Level Productivity: The Case of Rice, Millet, and Maize in Senegal

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Abstract : Since 2004, inputs specific to the agricultural sector have been exempt from VAT in Senegal. This paper measures, using the Naatal Mbay survey, the impact of this reform on agricultural productivity. The survey covers a sample of 3,122 rice, millet and maize farms for the 2016 crop year. The regressions show that tax incentives are ineffective in improving partial productivity of the land factor: the higher the share of the value of exemptions in the higher the production costs, the less productive the operation. The negative effect of the exemptions on productivity is accentuated for the most intensive agricultural area: the Senegal River Delta, and the most intensive crop: irrigated rice. This relationship could stem from a decrease in allocative efficiency: farmers have overinvested in the most accessible inputs. The loose budget constraint syndrome, therefore, explains this result: farmers who benefit more from exemptions reduce their managerial effort. The results suggest a removal of the VAT exemptions applied to finished products and agricultural inputs for a better efficiency of this tax, which typically taxes final consumption and should be neutral for the producer.

Keywords : agricultural productivity, agricultural taxation, Senegal, tax incentives

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