NAIK
Nemzeti Agrárkutatási és Innovációs Központ
National Agricultural Research and Innovation Centre

Research Institute of Agricultural Economics

Setting up an Income Stabilisation Tool in Hungary

Szilárd KESZTHELYI, PhD

27th Pacioli workshop, Prague

06-09 October 2019,

EU Legistlation

- REGULATION (EU) No 1305/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013
- on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)
- ***Article 39:*** **Income stablisation tool**
  - Support can be granted where the drop of income exceeds 30 % of the average annual income of the individual farmer in the preceding three-year period
  - Compensation for less than 70 % of the income lost

Hungarian holdings

Different obligations referring to financial reports

- Compulsory double-entry book-keeping
- Income statement is available

‚A' method

- Single-entry book-keeping
- Use a full revenue- and cost statement

‚B' method

- Only full revenue statement
- Invoices are partly available

‚C' method

What producer's data are available?

‚A' method

- Incomes ✓
- Costs ✓
- Inventory change / Value of capitalised self-produced agricultural goods / ✓
- Income statement only focusing on the agricultural activities !

‚B' method

- Incomes ✓
- Costs (expenditures) ✓
- Inventory change ✗

‚C' method

- Incomes ✓
- Costs ✗
- Inventory change ✗

Input table of income calculation – ‚A' method

No.	Description	Reference period			Accounting year	
		n-3. year	n-2. year	n-1. year	n. year	
1.	**Net revenue of agricultural products**					producer fills it out
2.	Changes in self-produced agricultural stocks					producer fills it out
3.	Value of capitalised self-produced agricultural assets					producer fills it out
4.	**Value of capitalised self-produced agricultural goods (±2.+3.)**					producer fills it out
5.	**Other agricultural revenues in total**					producer fills it out
	From this: Disaster payments					producer fills it out
	Income stabilisation compensation					producer fills it out
	Other grants and subsidies					producer fills it out
	Compensation for current production loss from privat insurance					producer fills it out
	Others					producer fills it out
6.	***Total agricultural revenues (1.±4.+5.)***					calculated
7.	Specific agricultural costs					producer fills it out
8.	Value of services for agricultural activities/Contract work for agricultural activities					producer fills it out
9.	Other costs					producer fills it out
10.	**Total specific agricultural costs (7.+8.+9.)**					calculated
11.	**Other farming overheads**					producer fills it out
12.	***Total costs (10.+11.)***					calculated
13.	***Farm income (6.-12.)***					calculated

Input table of income calculation – ‚B' method

No.	Description	Reference period			Accounting year	
		n-3. year	n-2. year	n-1. year	n. year	
1.	**Net revenue of agricultural products**					calculated from the tables of inventory change
2.	Changes in self-produced agricultural stocks (balance sheet of plants and animals)					calculated from the tables of inventory change
3.	**Other agricultural revenues in total**					Calculated
	From this: Disaster payments					Hungarian State Treasury
	Income stabilisation compensation					Hungarian State Treasury
	Other grants and subsidies					Hungarian State Treasury
	Compensation for current production loss from privat insurance					producer fills it out, control in the Compensation Scheme
	Others					producer fills it out
4.	***Total agricultural revenues (1.±2.+3.)***					calculated
5.	Specific agricultural costs					producer fills it out
6.	Value of services for agricultural activities/Contract work for agricultural activities					producer fills it out
7.	Other costs					producer fills it out
8.	**Total specific agricultural costs (5.+6.+7.)**					calculated
9.	**Other farming overheads**					producer fills it out
10.	***Total costs (8.+9.)***					calculated
11.	***Farm income (4.-10.)***					calculated

Input table of income calculation – ‚C' method

No.	Description	Reference period			Accounting year	
		n-3. year	n-2. year	n-1. year	n. year	
1.	**Net revenue of agricultural products**					calculated from the tables of inventory change
2.	Changes in self-produced agricultural stocks (balance sheet of plants and animals)					calculated from the tables of inventory change
3.	**Other agricultural revenues in total**					calculated
	From this: Disaster payments					Hungarian State Treasury
	Income stabilisation compensation					Hungarian State Treasury
	Other grants and subsidies					Hungarian State Treasury
	Compensation for current production loss from privatinsurance					producer fills it out, control in the Compensation Scheme
	Others					producer fills it out
4.	***Total agricultural revenues (1.±2.+3.)***					calculated
5.	***Total agricultural costs (AKI)***					calculated by AKI
6.	***Farm income (4.-5.)***					calculated

Data request on inventory change - Plant

	Codes	Nomination	Protec-ted, basic	Area sown	Opening stock (self produced)	Production	Sales from own production	Net revenue from own production	The farm's internal use I. (fodder)	The farm's internal use II. (for further precessing)	The farm's internal use III. (other)	Loss	Farmhouse consumption	Closing stock (self produced)
Unit				*ha*	*tonne*	*tonne*	*tonne*	*HUF*	*tonne*	*tonne*	*tonne*	*tonne*	*tonne*	*tonne*
Rye	KAL15	Rye	basic											
	KAL16	Multiannual rye	basic											
Barley	KAL17	Winter barley	basic											
	KAL18	Spring barley	basic											

Data request on inventory change – Livestock

Description	Animal categories	Unit (except net sales revenues and)	Opening stock	Purchases	Increase due to birth	Increase in weight	Change of ranking (+)	Change of ranking (-)	Sales	Net revenue (HUF)	The farm's internal use	Loss	Farmhous consumption	Closing stock	Average number (piece)
Cattle	Calf rearing	piece													
	Calf rearing	kilogram													
	Young heifers (till 2 years)	piece													
	Young heifers (till 2 years)	kilogram													
	Heifers for fattening (over 2 years)	piece													
	Heifers for fattening (over 2 years)	kilogram													
	Dairy cows	piece													
	Dairy cows	kilogram													
	Beef cows (and other not milked)	piece													
	Beef cows (and other not milked)	kilogram													
	Bulls for slaughtering	piece													
	Bulls for slaughtering	kilogram													
	Bulls for breeding	piece													

Data request on inventory change – Animal product

Description	Unit (except net sales revenues)	Opening stock (self produced)	Production	Sales from own production	Net revenue from own production (HUF)	The farm's internal use I. (fodder)	The farm's internal use II. (for further precessing)	The farm's internal use III. (other)	Loss	Farmhouse consumption	Closing stock (self produced)
Cows' milk	litre										
Buffaloes' milk	litre										
Wool	kilogram										
Ewes' milk	litre										
Hens' eggs	piece										
Eggs for breeding (hen)	piece										
Eggs for breeding (duck)	piece										
Eggs for breeding (turkey)	piece										
Eggs for breeding (goose)	piece										
Feather	kilogram										
Goats' milk	litre										
Honey and other products of bee-keeping	kilogram										

Principles of income calculation

- Income index usage <u>(Income/SO)</u>
  - Its aim is not to show the effect of changes in the production structure on the change in income.
- Reference period – The benchmark is the average of 3 years prior to the accounting year
- Cases of compensation:
  - Accounting year income index / Reference income index < 0,7 */If incomes are positive in the accounting year and in the reference period/*
  - Accounting year income index / Reference income index > 1,3 */If incomes are negative in the accounting year and in the reference period/*
  - Accounting year is negative and reference period is positive
- 30 percent income reduction is necessary in case of income calculation without subsidies. → Eliminating the distortive effect of changes in aid policy.
- Negative reference income is ineligible.
- Measurement of compensation: 69.9 percent income reduction

Cost calculation

- To be used in the ‚C' method.
- **Source: FADN sectoral data collection by AKI**
- Unit costs based on farm size are to be multiplied
- **<u>Basis of calculation</u>**
  - Area Sown
  - Average number (Number of feeding days/365)

State aid

- **Source: Hungarian State Treasury (MÁK) (producer at the ‚A' method)**
- Subsidies determining agricultural income
  - Subsidies for several years (e.g.: direct subsidies, „greening").
  - Essential criteria of identifying the change of income: in case of appearing regularly in the same farm every single year of the period of four years. (3 reference years + 1 accounting year).
- Excluding the occasionally received grants and investment subsidies
  - To avoid having significant diversion in the change of income in the accounting year as well as the reference years; to avoid receiving unjustified compensation.
  - Investment subsidies are not part of the income calculation of the current accounting year!
- Compensation related to risk management
  - Avoid overcompensation

Control

- FADN control formulas of AKI
- ‚A' method: control formulas used in FADN related to farm typology
- ‚B' and ‚C' method: control formulas used in FADN sectoral data collection
- Monitoring of control process (risk assessment) → Intensive check-up of the suspicious case

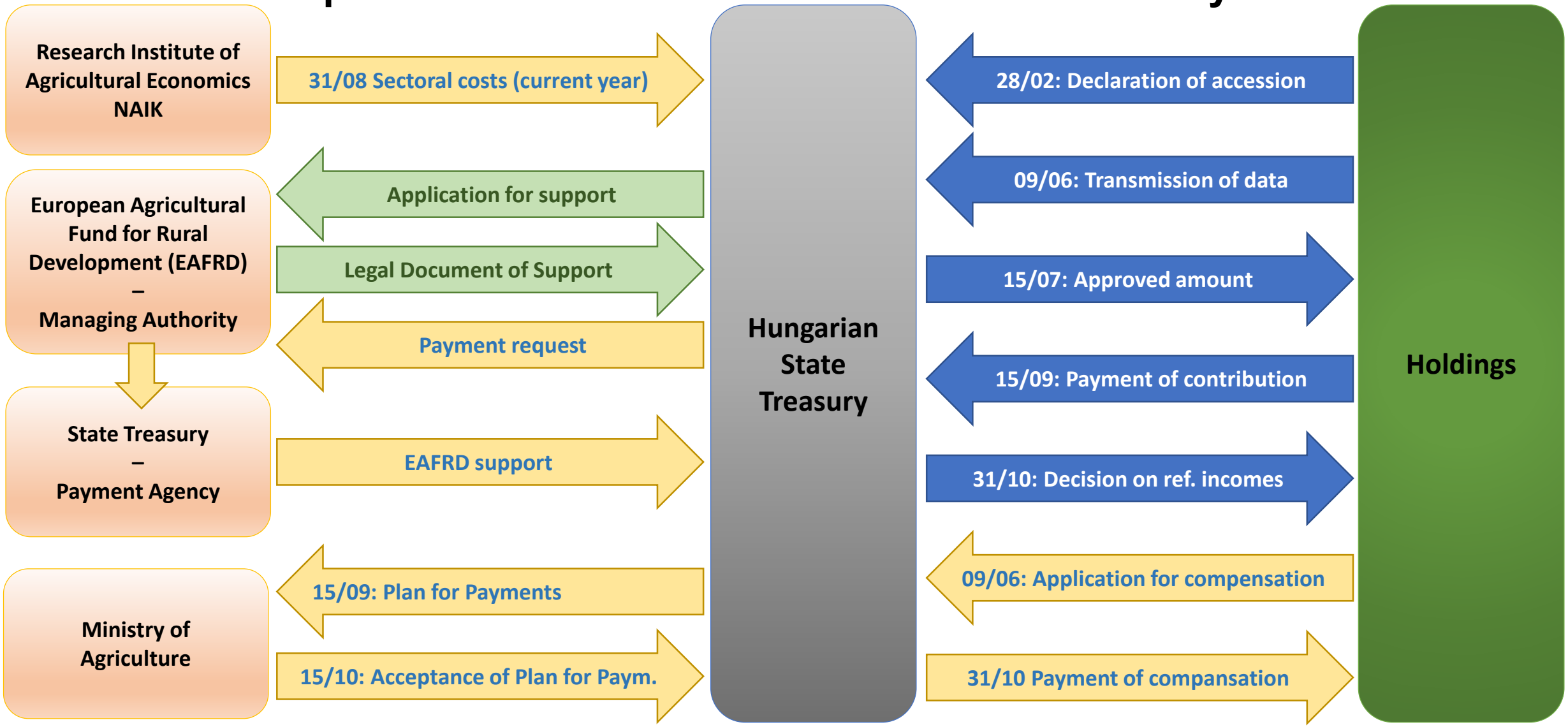
- Control within the tables and numerical control
- Interval control
- Continuity control (comparing data from the previous accounting years of the given holding and trends are compared with the national trends)
- Cash-flow calculator

✓ **When controls are completed, suspected negligence may arise.→ On-the-spot check in this case**
✓ **Exploration of extreme changes between the years /eg.: Problem caused company network/ → Mandatory justification, if appropriate sanctioning**

NAIK
Nemzeti Agrárkutatási és Innovációs Központ
National Agricultural Research and Innovation Centre

Research Institute of Agricultural Economics

Operational model of the income stabilisation system



Discussion

- The basis of income (gross income vs net income)
- Accrual basis / cash basis accountancy
- Investment subsidies
- Simplification (stocks, inventories)
- Less methods to be used

NAIK
Nemzeti Agrárkutatási és Innovációs Központ
National Agricultural Research and Innovation Centre

Research Institute of Agricultural Economics

Thank you for your attention!

https://www.aki.gov.hu/