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REFORM OF FAMILY FARMING

Case study

HUNGARY

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Summary

Official name of the Program/Policy: Reform of Family Farming

Thematic focus: harmonize the legal framework for family farming, enhance family farming as a form of agricultural activity

Main governmental body responsible for Program/Policy management: Ministry of Agriculture

Starting year: 2021

Program/Policy main goals/objectives: regulating the various forms and taxation of family farming

Main/direct beneficiaries: primary agricultural producers and family farmers

A summary of the policy development and implementation: The farming structure of Hungarian agriculture differ significantly from Western European practices. It means that due to different categories and organizational forms it was difficult for the farmers to match and identify overlaps. Farmers classified themselves in different organizational forms and tax categories to exploit the loop-holes of the law for economic advantages. After the regime change the main aim was to cope with unemployment – thus small-scale farmers and producers had the opportunity to make a living with such a framework which supports them the best. By now the situation has changed and the organization forms could not cover the activities of the farmers, producers. The structure of agriculture is highly fragmented in legal and formal terms, which distorts the indicators of the sector, makes it difficult to attract external financing and it binds significant capacities on the part of both the state and the farmers. In the European Union, including Hungary, eldering farmers' generation is a significant challenge. Making the primary agricultural producer layer more transparent and improving the legal environment for family farmers can be a significant step in solving the problems of the agrarian generation change. A new legislative approach was introduced in Hungary regarding family farming in 2021 by the Act CXXIII. of 2020 on Family Farms. The whole process is called the “Reform of Family Farms”. The primary goal of the law was to give farming families the opportunity to choose the form of operation that best suits their own capacity. It means they could decide on changing their legal status as besides to being a family farm, the law introduced the concept of family farm company, too. The opportunity to decide on the optional form of family farm company made it possible to increase the competitiveness of family farms – because of the legal status - which had a growth constraint in recent years. The initiative includes the regulation on primary agricultural producers. Regarding them, a significant change is that the detailed information on the form of operation rules from now on are not regulated under the Personal Income Tax Act (hereinafter: Szja. tv), but it is regulated by the Act on Family Farms. However taxation in the future should remain according to the Szja. law must be followed (NAK, 2020). The policy agenda launched under national competence also includes tax relief, reduction of administrative burdens, awareness-raising and the transformation of the training system. Previously 83,000 farmers worked in 23,000 family farms throughout the country. In 2021 66,000 family farms have been registered under the new regulations, proving that the option to change their legal form was appealing. These farms are the core base of family farming and generation renewal in Hungary. Hungary's Common Agricultural Policy (CAP) Strategic Plan has been prepared in accordance with the family farming reform regarding the objective generation renewal and increasing employment in rural areas.

The case is related to United Nations Decade of Family Farming (UNDF) Global Action Plan (GAP) Pillars ¹ with regard to:

- Pillar 1. Develop an enabling policy environment to strengthen family farming;
- Pillar 2. Transversal. Support youth and ensure the generational sustainability of family farming; and
- Pillar 5. Improve socio-economic inclusion, resilience and well-being of family farmers, rural households and communities.

¹ <https://www.fao.org/3/ca4672en/ca4672en.pdf>

Introduction

Family farms play an active role in the economic life of rural areas in Hungary, preserve cultural heritage and the rural way of life, enliven the community life of rural areas, and create valuable products. They treat natural resources in a sustainable way and can prevent land ownership from being concentrated in a few hands. During the political regime change in the 1990's, the average size of cultivated land area by family farms was 2.2 hectares. The property structure formed on the basis of land use was characterized by the presence of a large number of small farms barely reaching the lower threshold of viability.

In preparation for the new programming period of the Common Agricultural Policy 2021-2027 and in accordance with the United Nations Decade of Family Farming 2019-2028 in cooperation with farmers, on the initiative of Hungarian Chamber of Agriculture in 2019 the Ministry for Agriculture prepared a new comprehensive law on regulating every aspect (organizational form, taxation, social insurance, etc.) of family farming at the end of the last decade.

The Act CXXIII. of 2020 on Family Farms has been published on the 30th November, 2020 and came into effect on the 1st January, 2021. Meanwhile a Government Decree was published in accordance with the new act on the 28th December, 2020 on the implementation of the law on family farms (Government Decree No 665 of 2020).

The purpose of the agenda setting was to settle the position of family farms by the beginning of the current planning period of the European Union in that way family farms will be able to draw direct payment subsidies and participate in rural development tenders in clear conditions.

The relevance of the program is shown by the growth of both the number and share of primary agricultural producers and small agricultural farms (Table 1 and Table 2).

Table 1: Taxable personal income (HUF) ratio in total of companies (2020) and change over 2017 – 2020

Regions	ratio of small producers	ratio of primary agricultural producers	change of primary agricultural producers	change of companies (total)
<i>Hungary (total)</i>	7.83%	6.61%	+59%	+63%
<i>Great Plain and North</i>	17.15%	13.65%	+52%	+62%
<i>Transdanubia</i>	8.35%	8.11%	+63%	+66%
<i>Central Hungary</i>	1.59%	1.21%	+99%	+63%

Source: Data of Hungarian Tax Office (nav.hu)

In total, the amount of taxable income of all companies in Hungary increased by 63%, while that of the primary agricultural producers by 59%. The variation of the growth (+52% - +99%) however is large and compared to the total companies (+63%) the growth of income of primary agricultural producers is extreme in Central Hungary (+99%).

Table 2: Taxpayers (ratio) – small agricultural producers to total of companies

Regions	2017	2018	2019	Change in share 2017-2020
<i>Hungary (total)</i>	17%	16%	18%	2.0%
<i>Great Plain and North</i>	35%	31%	34%	-0.8%
<i>Transdanubia</i>	16%	15%	17%	6.4%
<i>Central Hungary</i>	4%	4%	4%	4.0%

Source: Data of Hungarian Tax Office (nav.hu)

The ratio of small agricultural producer taxpayers to the total of the companies varies regionally between 4% and 35%. In the last four years, greatest proportional increase was seen in Transdanubia (over 6%) and Central Hungary (4%). The basis for calculating tax benefits is the current minimum wage in the country. The essence of the favourable tax conditions for primary agricultural producers is that no tax is to be calculated below HUF 1 200 000 income/year. There is no obligation to pay Personal Income Tax up to HUF 12 million revenue. Up to 24 million revenue 10% of the amount between the 12 million and 24 million is the base of the Personal Income Tax payment. The subsidies are not calculated as income thus those are not added to the base for any tax payment.

Before 2021 there was no comprehensive approach in Hungary about family farms or family farming, however the concept of family farms existed but only as a taxation/statistical category. Meanwhile increasing competitiveness was given more emphasis in agricultural policy and rural employment stayed in the focus of rural development policy. As most of the small and medium-sized farms are run by families, family farms became central elements of the new concept. So, a new legislative approach was introduced in Hungary regarding family farming in 2021 by the Act CXXIII. of 2020 on Family Farms.

Act CXXIII. of 2020 on Family Farms (published 30th November, 2020 effect from 1st January, 2021) was created with the purpose to define agricultural and forestry activities carried out with the participation of family members, the joint use of their resources and the results of their work for their common prosperity, as well as the definition of the business forms of family farming and the rules of their operation. The scope of this Act covers the activity, registration, cancellation, and control of primary agricultural producers; the establishment, registration, operation, rights and obligations of its members, termination, control of the family farm of primary agricultural producers; and the establishment, registration, operation, rights and termination and control of the family farms.

Primary agricultural production (as defined by Act 2021. CL. 160. § b) is either any agricultural and forestry production² which is included in the primary agricultural producer register, or additional primary agricultural production activities.

The primary agricultural producer could only start its activities after official registration. A primary agricultural producer can be only a natural person who has reached the age of at least 16 years and registered as a primary agricultural producer, and who carries out the activities on their own farm. The primary agricultural producer may carry out his activities independently or as a member of the family farm of primary agricultural producers. A primary agricultural

² crop production, horticulture, animal husbandry, animal husbandry, fish farming, seed production, game management, forestry

producer may not engage in sole proprietorship activities with regard to primary agricultural producer activities.

The family farm of primary agricultural producers (ŐCSG) is a production community established by at least two primary agricultural producer members in a chain of relatives³, with independent legal status and no assets separate from the members' assets, within the framework of which the primary agricultural producers carry out their activities jointly on their own farm, based on the personal contribution of all members, are carried out in a coordinated manner. A primary agricultural producer may be a member of only one family farm at the same time. In order to establish the family farm of primary agricultural producers, the members enter into a written contract. A family farm cannot have external members but may hire external labour

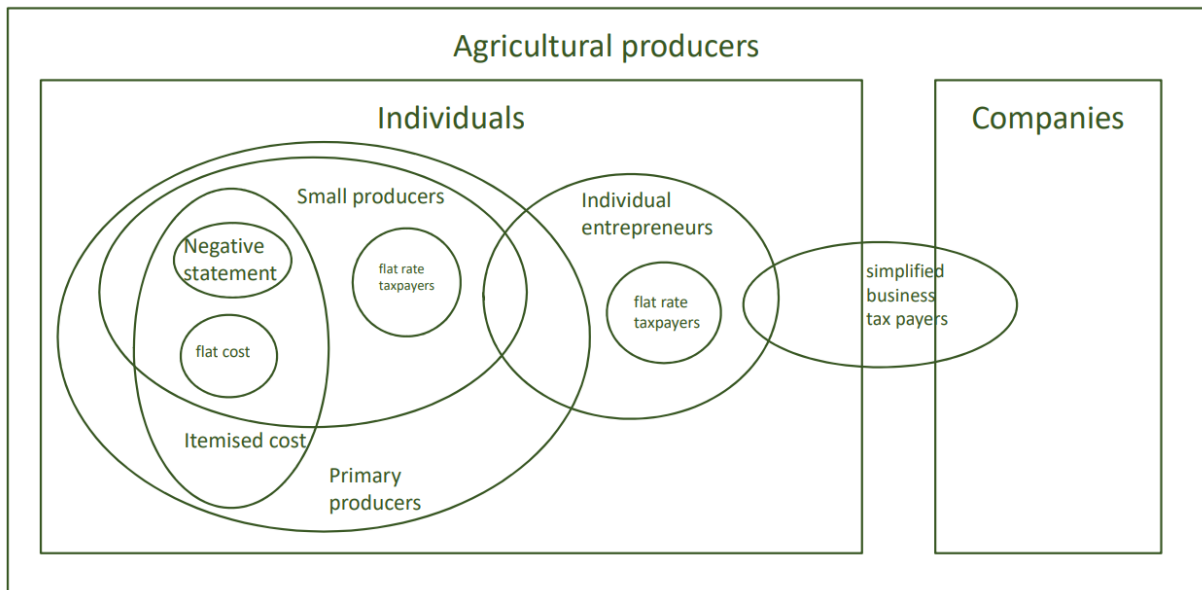


Figure 1: Former taxation of primary agricultural producers

Source: Merkel K. & Tóth K. (2010) p 33

A small agricultural producer as defined in 52/2010. (IV. 30.) *Agricultural Ministry Decree* produces, harvests or collects in the wild small amount of basic product and sells it directly to the final consumer, or to a retail or catering service within the region or within a distance of not more than 40 km from the location of the farm, or provides a public catering facility; may also supply small amount of food produced from the basic product or fish caught legally directly to the final consumer, or to a retail or catering establishment within the region or within a distance of no more than 40 km from the location of the farm. Modification of the decree (20/2021. (V. 17.) Decree of Ministry of Agriculture) removed the afore mentioned spatial limitations. The law indicates the maximum amounts of various products a small agricultural producer may supply (20/2021. (V. 17.) Decree of Ministry of Agriculture Annex B1). Small agricultural producer also may operate a village guest table; and provide further services to private

³ Close relatives: spouses, lineal relatives, adopted, step- and foster-children, adoptive, step- and foster-parents, and siblings. (Civil Act § 8:1. 1.) Relative: the close relative, the partner, the spouse of a direct relative, the spouse of the spouse in the direct line and his or her sibling, and the spouse of the sibling. (Civil Act 8:1. §2.) Chain of relatives: natural persons in close relatives and a group formed by the relatives of such persons.

individuals or other small producers (also specified in the Annex –B2- of 20/2021. (V. 17.) Decree of Ministry of Agriculture).

The selected case of the programme focusing on the family farms is a newly introduced regulation, which came into effect recently and enabled family farms to clarify their legal and taxation status. The criteria of the selection was that the case targets are family farms and primary producers, it is aimed specifically to their situation in taxation and already has results of the implementation. The entire policy cycle was available either in written documentation or by interviews for discussion. The case discussion reflects on valuable information for policy actors such as decision makers, implementation bodies, and target groups with regard to possible feedback on future public policy development. The case provides efficient implementation figures.

Data collection for the elaboration of the case studies included:

- a. Review of available documents: The information brochure⁴ of the Hungarian Chamber of Agriculture, the law on the Family Farms (2021 CXXIII) and further legislations (government and ministry decrees) related to the status and taxation of primary agricultural producers; further background studies, such as the Report on the taxation of primary agricultural producers (AKI, 2010) (see references)
- b. In-depth interviews were conducted with key actors involved in the programme/policy: experts from Ministry of Agriculture, 19th July 2022; senior researcher from Institute of Agricultural Economics (AKI) 7th September 2022; tax accountant and senior rural consultant from the Hungarian Chamber of Agriculture, 14th July 2022; Mr Gábor Oláh and Ms Gabriella Holecska family farm producers, 2nd September 2022; in around an hour length of time, online.

The interviews were conducted during the phase for country case study elaboration. The open questions of the interviews are attached in the Annex.

⁴ <https://www.nak.hu/kiadvanyok/kiadvanyok/3553-csaladi-gazdasagok-reformja-tajekoztato-kiadvany-a-csaladi-gazdasagokrol-szolo-torvenyrol/file>

A: Agenda Setting

The regulation of small producers started in 1997 within the framework of the personal income tax law. It introduced the concept of primary agricultural producers which led to the practice that all family members from minors to 80-90 years old grandparents were registered as primary agricultural producers on paper. During the following 20 years, the category of small producers became rather a business category, while registration and food chain safety rules came to force too. This system of regulation, which remained tax regulation became less transparent as the system mentioned above led to overlaps: all family members were registered as primary agricultural producers to get the maximum tax relief and also there was a company managing the farm as a whole.

In 2001, the regulation of family farms started, which was based on primary agricultural producers' regulation, even though the two were not in harmony. Initially the primary agricultural producers' system was introduced to manage the reorganization after the regime change in the 1990s and the unemployment: produce their own products and sell the surplus while family farms had to compete at the international level. Not only small producers – who received higher tax reliefs but also individual entrepreneurs could become members of family farms. Over the years, the need to reform the existing situation has arisen several times, especially in the field of family farming. The Hungarian Chamber of Agriculture collected farmers' opinions throughout the years and jointly represented farmer's interest to the administration. Several reasons made the reform inevitable:

- Personal income tax system does not satisfy the requirement of transparency in agriculture, as a basic principle of taxation, because the multitude of denominations and of the relevant taxing methods and their combinations render difficult the orientation among the rules, preventing the implementation of a uniform and transparent legal regulation which is easily interpretable by all stakeholders.
- The limits related to preferential taxation have been unchanged for more than 10 years, so this made the farmers to involve more persons in farming who had no actual agricultural activity which pointed in the direction of grey (eventually black) market.
- The fragmentation of larger farms caused creditability difficulties which hindered development and causing competitiveness problems for farmers.

These reasons made all parties (farmers, administration – Ministry of Agriculture and Ministry of Finance, the Hungarian Chamber of Agriculture, National Tax and Customs Administration and credit institutions) interested in the changes, thus there were no conflicts of interest.

In recent years, the number of farms that have reached a level of development where the rules for family farms have become a barrier to growth has increased.

The set goals (related to tax incentives) were achieved with this law, which is positive from the point of view of farms. During the planning period of the law, the facilitation of bank loans for family farms, which was marked as a goal, was not known for the wider professional community, so its failure did not appear as a negative consequence for the farms.

As a result, a transparent system (i.e., the system created by the new law) was developed, the main elements of which are an electronic form and an inquiry system on both primary agricultural producers and family farms.

As the new law has tied the preferential tax categories to the minimum wage and there has been an immediate increase in the categories, farmers welcomed the changes. Their access to credit

increased as well, because their profitability has increased as a result of the tax cuts, leading to better credit ratings for family farmers.

B: Law Formulation

Extensive consultation took place during the preparation of the law. The first step in this process was the publication of the proposal 'Growing agriculture and food economy, in prosperity growing countryside' by the Hungarian Chamber of Agriculture in 2018. The Ministry of Agriculture coordinated the preparations and besides the Ministry of Finance and the Ministry of Law, the Hungarian Chamber of Agriculture (NAK) and advocacy organizations such as the Association of Hungarian Farmers and Cooperation (MAGOSz) and Hungarian Association of Young Farmers (AGRYA) participated. The work of the established thematic working group was based on the ideas of professional organizations like the Institute of Agricultural Economics as one of the background institutions of the Ministry of Agriculture.

During the negotiations with the Ministry of Finance, the idea was born that the areas previously regulated by different laws (personal income tax law, government decree on family farming, of 2020 land law) will be combined into a single framework.

Right at the beginning of this work, the concept emerged from the side of the administration that this regulation should be part of the development of the strategy for generational renewal in agriculture. Thus, the first step of this strategy became the Act on Family Farms; and the next step is the concept of transferring farms (Act CXLIII of 2021 on Farm Transfer) - since previously there were no specified roles for farm transfer, farm transfers were regulated as any other company transfers. The farm transfer law enters into force on January 1st 2023. It is based on regulatory tools and support policy measures will be connected in the framework of the Hungarian CAP Strategic Plan. Both the transferor and the receiving farmer will be able to receive support as part of the measure. The main aim of this part of the strategy is attitude formation which includes education, sensitization, exploring emotional and decision-making processes, and vision creation. Based on the agro-census of the Central Statistical Office and the survey of the Hungarian Chamber of Agriculture 80% of all farm transfers will happen within the family. Currently, it seems that the most relevant factor in the transferring process is emotion - since farmers just like as in some other countries feel personally attached to the land they use and the animals they care for - so all sort for support (advisors, lawyers, and accountants) will be available for families to ease the process where financial support for both parties could be a motivation factor.

At first a preliminary draft law prepared by the Hungarian Chamber of Agriculture was discussed by the working group. There was a consensus that this draft could not be implemented – since the proposal did not only affect personal income taxation, it would also have affected corporate taxation which would conflict with some EU legislation – but it also became obvious that a reform was definitely needed. The parties involved in the work started thinking about developing a new concept. The idea of family farm company came from this first draft since the Chamber's proposal was to give family farms a real business status while they also planned to keep the small producer' law regulations. This concept was opposed by the Ministry of Finance and therefore left out from the regulation because corporate tax would also have been affected which would also conflict with EU legislation. Therefore, the Ministry of Finance did not allow the blurring of corporate tax and personal income tax.

The Ministry of Agriculture did not conduct surveys or analyses for the development of the policy themselves, they received studies from background institutions (e.g., Institute of

Agricultural Economics) and professional organizations (e.g., AGRYA). The working group relied primarily on interviews and expert analyses.

C: Law adoption/endorsement

The legal drafts were drawn up by various ministries, trade unions and interest representative organizations (see the previous chapters for more details). During these professional consultations, it was shaped into a common idea. The goals of the main technical and professional questions formulated during the negotiations were, for example:

- 1, the coordination of the taxation forms that are still in force and the significant new form of taxation. Simplicity and transparency are important, but there should not be too advantageous options, because then they distort the processes;
- 2, the precise design of the possible forms of family farms and the delimitation of categories - easy adaptation of the previous system, but more accurate mapping of transparency and taxation according to function/operation;
- 3, as a result of financial and operational transparency, the exploration of suitable development opportunities for different farming structures (bank financing, tax benefits, technological developments and market access assistance, as well as the possibility of longer-term planning, etc.);
- 4, mapping the farming structure more precisely, to create more effective regulation, and to develop a more targeted support policy.

To achieve these goals, the collected ideas and implementation options were coordinated by professional organizations and interest representatives in several rounds of consultations. Farmers' organizations also took part in the process, where they could express their comments and formulate demands.

In addition, authorities that control the application of the law and collect data were also involved. The law proposal acceptable to everyone was followed by rapid approval and introduction, where all actors had to be flexible - for this reason, possible difficulties arising from the transition did not primarily entail sanctions but extra support (deadline extension, provision of accountants with special knowledge at the departmental level, optimization of institutional infrastructure). The Ministry of Agriculture as the organization responsible for the legislation finds that conflicts were handled during the preparations of the law. For example, there were efforts to clarify the circle of primary agricultural producers so that it does not merge with the big farmers, but these proposals were removed during the political consultation of the law. The legislators' goal of leaving larger farmers out of the regulation was not achieved. Transparency remained the focus of the law. From the point of view of taxation, it is important to distinguish farms (primary agricultural producers, larger farms). If a farm exceeds the income limit set out in the tax law, it is excluded from the given preferential taxation range. These limits make the farmers not to exceed these limits - it is possible to maximize the discounts in this way. So, the possibility was open that, although it is classified as a larger farm in terms of its functions, it belongs to the preferential category for smaller ones from the point of view of taxation. Clarifying this was one of the goals to create transparency.

Basically, it is an agricultural administration law: it puts the existing rules into a new framework. It mainly provides administrative conditions, but it is the first step in a generational renewal strategy. The generational change and the regulation of family farms are closely related measures that directly affect each other. They complement and help each other. The strategy to

help generational change, which is under preparation, is not part of the currently discussed family business law, but it has a great influence on it indirectly. The aim of the strategy is to make the generational transition of agricultural enterprises smoother and more predictable. It approaches all of this from several angles: making agriculture more attractive among young people, helping farms that are already undergoing a generational change and/or are about to do so with effective tools (education, counselling, financial incentives).

It was up to the end of 2020 to decide whether the farmer wanted to move to the new category. The old family farms were automatically reclassified (only the individual entrepreneur had to declare its status). Joint farmers could become family farm of small producers by registration (Figure 2.). A more precise definition of the different farm forms will be covered in more detail in the next chapter.

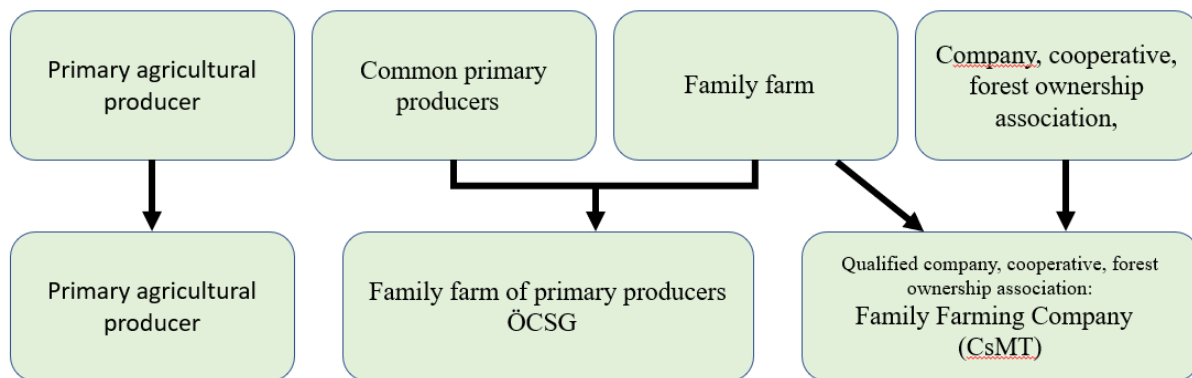


Figure 2: Reform of primary producers and family farm system⁵

In more detail: Act CXXIII of 2020 on family farms contains the rules for family operating forms (Primary agricultural producers, family farms of primary agricultural producers and the Family Farming Company) (figure 2.). Figure 2 shows the exchange options for those who had a primary agricultural producer certificate valid on December 31, 2020.

There were challenges with IT management of the transition (merging of databases, reconciliation of identifiers, still ongoing today, although the identifiers were already needed for the 2021 tax returns). The law had to be enacted very quickly to have the new tax rules in place for the following year. Preparing the law was a 2-year process, but between knowing the exact text and applying it, the time to prepare was short. There was little time to apply the adopted new regulations, so the farms had to adapt within a tight deadline. The alternative was to delay the implementation of the law for a full year. The political decision was aimed to take on the problems of short deadlines instead. The Hungarian Chamber of Agriculture made a huge effort to get the information to everyone as quickly as possible.

The Hungarian Chamber of Agriculture was entrusted with both the communication of the drafting process and later on with the communication of the law. At first internal preparations took place: farmer advisors were given update about the details of the law on regional level. Then, during March 2021 they informed the farmers at various events (e.g., roadshows, group briefings, an online free video series is available about the whole reform). The most effective way of informing farmers was still the personal counselling.

⁵ Source: Hungarian Chamber of Agriculture (NAK) website - Table of selectable categories
Link: <https://www.nak.hu/csg>

It is seen by multiple parties that the briefing of accountants was inadequate, in some cases they needed support on how to interpret the regulations.

According to the Hungarian Chamber of Agriculture 10% of the farmers did not actually change category, as the conditions of the new category also suited them. So, in their case, there was no significant change. There were no major or substantial changes compared to the previous system and laws, as previously there had been attempts to cooperate between the farmers mainly to reduce the tax burden.

D: Law Implementation

Within the working group (which contains most of the earlier mentioned organisations and institutes as well, for example: NAK, Agrya, MAGOSz, PM) the cooperation is good. The Ministry of Agriculture is in contact with both the Hungarian Chamber of Agriculture keeping the records of the family farms and with the National Food Chain Safety Office (NÉBIH) who operates the register and acts as the controlling authority of the family farms, as well. Currently, the development of the interface for the electronic procedure of primary agricultural producer registration is underway in the cooperation of the two above mentioned organization. In the register, the following information about the bidders is available (non-exhaustive): Based on full name, date of birth, FELIR identifier (Food chain surveillance registry (operated by the National Food Chain Safety Agency)), or activity identifier.

This system is a family farm searcher, based on ÓCsG identifier⁶. It is an official register for both primary agricultural producers and family farms. By using the easy-to-use interface, it is possible to access all necessary and public data regarding the activities of primary agricultural producers and family farmers e.g. spheres of activity, starting date of family farm, rules within the family farm.) Proper maintenance of the database is a common interest. This contact does not take place on the aforementioned data request interfaces, but on professional consultations. In order to always see the current data during operation, the Hungarian Chamber of Agriculture keeps contact with the National Tax and Customs Administration; while the Ministry of Agriculture negotiate with the Ministry of Finance if needed. The working relationships are particularly good: constructive, joint work is taking place.

The new law has had several effects on the institutional system. The NÉBIH registers the farmers. There have been minor changes, the registration system has had to be modified; they have a new system for managing the data. The biggest changes were at the NAK. The CSMTs are registered by them. This was not the case before. In the case of National Tax and Customs Administration (NAV), essentially only the tax return forms have changed. After the law came into force, legal application questions arose. These were clarified after continuous negotiations with the Hungarian Chamber of Agriculture and National Tax and Customs Administration. These requests were settled in the framework of a law amendment in the second half of 2021. Since then, no issues arise.

The details of the three categories formed during the negotiations are included below (Figure 3, 4, 5.).

⁶ The register is now available on the following link: <https://portal.nebih.gov.hu/ostermelo-kereso>

Primary producers

- Minimum 16 years old
- Natural person
- Performs activity on own farm
- In parallel cannot perform the same activity as self-employed
- The close relative or an employee can also act on behalf of the producer in sale activities
- Activities:
 - Agricultural and forestry activities
 - Product processing – allowed maximum quantities are regulated by a decree
 - Other additional activities (related to agriculture) up to 25% of revenues

Figure 3: Brief description of the primary agricultural producers⁷

Family farm of primary producers (ŐCSG)

- Primary producers over the age of 16
- Its **members** are **related to each other**
- It has **at least 2** members
- **Personal contribution is mandatory**, but it is **not** mandatory for this to be your **main job**
- A prime producer can only be a **member of one ŐCSG**
- Can be **established by contract** – (civil law)
- The representative can act on **behalf of its members**
- Members and employees can act on each other's behalf when selling

Figure 4: Brief description of the family farm of primary agricultural producers⁸

⁷ Source: Hungarian Chamber of Agriculture (NAK) website - Information booklet about primary producers, Link: <https://www.nak.hu/csg/ostermelo>

⁸ Source: Hungarian Chamber of Agriculture (NAK) website, Information booklet about Family farm of primary agricultural producers, Link: <https://www.nak.hu/csg/ocsg>

Family Farming Company (CsMT)

- A **new qualifying category**
- The certification is carried out by the National Agricultural Chamber upon request.
- Conditions for obtaining the qualification:
 - Economic company, cooperative, or forest ownership association;
 - It has **at least 2 members**
 - Its members are **related to each other**
 - It only carries out **agricultural, forestry and ancillary** activities.
- A person can only be a **member of one CSMT**
- A **legal entity cannot be a member** of the CSMT, (except in the case of acquiring its own business or own shares)
- Only those whose enterprise have **already been registered** by the commercial court can be CSMTs
- The **25% income limit from additional activities does not apply**. In most cases, an economic unit carrying out additional activities can also be a CSMT

Figure 5: Brief description of the family farming company (CSMT)⁹

During the transformation of the operational forms of the family farms mentioned above (Primary agricultural producers, Family farms of primary agricultural producers and the Family farming company), many practical and technical questions were formulated. For this reason, time limit modification provisions were included in the 2021 amendment. New contracts had to be drawn up, which caused problems, e.g., for those with a joint farmers' certificate. It was more difficult to understand what had to be done (e.g., that there was an obligation to conclude a contract).

E: Law monitoring and evaluation

The first monitoring step is to resolve the enforcement problems after entry into force. The next review, which may focus on operations, is due in 3-5 years. (Specific methods for future monitoring activities are also not foreseen and will mainly take the form of consultations and discussions.) Otherwise, the Ministry of Agriculture as responsible for the law deals with such requests on an ongoing basis but has not received any such comments from the partner organizations in the last ten months. The Ministry of Agriculture helpdesk could be a platform for this. Also, it could be good feedback if the Ministry sees a more pronounced change in the number of participants. This has not happened yet.

To date, there has been no comprehensive evaluation or monitoring of the law. This would require data. Tax (personal income tax) data are expected only later than the timeframe of this study. Otherwise, there is no obligation for monitoring because it is a domestic regulation. In the case of other laws, e.g., when the sales tax was reduced for certain products, monitoring was performed; the effects were measured. (In case of ÓCsG the most important indicator is the change in the number of ÓCsG.) But the effects of these were much more direct. In this

⁹ Source: Hungarian Chamber of Agriculture (NAK) website Information booklet about Family Farming Company, Link: <https://www.nak.hu/csg/csmt>

case, the impact is not obvious. Stability is more important here; once the law is in place, it should not be touched for a few years.

The result of the law is that it has made this layer of farmers (300-400 thousand of farmers) more transparent, which helps in the administration of subsidies and other agricultural administration. The family farm of small producers (ÖCsG) as an institution has been integrated into the support policy. The feedback from the interest groups is also very positive. Farmers are using it and taking advantage of it. Contrary to expectations, there has not been a major decline in number of ÖCsG, and current figures show that the number of farmers has stopped at around 400,000. Out of 404,000, 170,000 are also participating in ÖCsG. The number of family farming company (CsMT) is expanding, so far 288 have been registered.

The law is seen as a success by farmers and by organizations connected to the implementation, as well, seen as the first step in a generational shift strategy. Its further success will be determined by the success or failure of the farm transfer law. This means that if the law will promote generational change within farms, it will be a real success.

The Ministry of Finance is also positive about the change, as it has made the tax system more transparent, it is considered to be more sustainable. No cut back or tightening of tax incentives is expected. The same general tax rules are planned for self-employed next year. The Ministry of Agriculture would have policy evolution ideas/directions for development, too, but it is not the moment for those changes, because the stability of the system would be compromised.

An important question is how the family farm of primary agricultural producers can get loans. Negotiations are underway with the Hungarian Banking Association and OTP Bank, on how primary (small) producers can become more eligible for credit. It would be a solution if the boundaries between the organizational forms (between primary agricultural producer, ÖCSG, CSMT) were separated more clearly (this did not happen due to the resistance of interest representation bodies).

Above a certain income level, the farmer has to decide what is more important: the development of the farm or keeping the tax benefits. The primary agricultural producer has a reduced tax rate up to approx. HUF 20 million income. In the family farming company (CSMT), the reduced taxation is up to approx. HUF 80 million (4*20 million). Exceeding that, family farmers can stay in the form of CSMT, but then they cannot claim tax relief, so there is no benefit to stay.

According to the decision-makers, the education of farmers is also necessary in this area: farmers cannot have a credit limit of HUF 100 million (EUR 250,000) all at once and be taxed as a private individual, like someone who cultivates a kitchen garden. It is difficult to make the problem mentioned above visible, so far, decision-makers could not make any progress in this.

In summary, it can be concluded that the introduction and implementation of the law took place successfully. Those who managed the transition they did well, judging by the feedback. If some barriers came across, e.g., it was due to inattention (the accountants either made a wrong statement in their own right), or those who did not want to continue operating as a joint primary agricultural producer simply did not apply for the status.

Conclusion

Prior to 2021, family farms in Hungary were only mentioned in relation to taxation and statistics, and there was no comprehensive legal regulation. In the meantime, Hungarian agricultural policy has increasingly focused on raising competitiveness, while rural employment has remained an important goal of rural development policy. As the majority of small and medium-sized farms are family-run, family farms became a central element of the new concept. In Hungary, Act CXXIII of 2020 on Family Farms (Act CXXIII on Family Farms) introduced a new legislative approach to family farms. Formulating the new operational forms, the main aim was simplification. By reducing administrative burdens and the emergence of more frequent collaborations, it is also possible to increase the competitiveness of producers.

Prior to the entry into force of the law, it was common experience that family farms included members who were not actually engaged in any activity, but rather joined to maximise the tax benefits. The aim of the restructuring is to maintain fewer forms of operation and to allow enough entry of those who wish to be genuinely involved in the farm, while still allowing the benefits that were popular before 2021 to continue to be claimed.

As the feedback from farmers delivered to agricultural extension service providers of the Hungarian Chamber of Agriculture farmers are satisfied with the new law. Contrary to expectations there was no major decrease in the number of primary agricultural producers. Current data shows that ca. 400, 000 primary agricultural producers are in the country from which 170, 000 are family farmers. Also, the number of family farm companies increases, currently 282 such companies are registered.

The law has increased the number of small farmers. At the same time, there has been a certain amount of bleaching the economy in the area, but it is difficult to estimate the proportion, as tax revenues have increased in recent times regardless. It is difficult to estimate the other impacts because it has not been in place for very long.

The primary agricultural producer is a personal law category. The self-employed entrepreneur is an economic, public law category. Transformation between the different economic forms is well regulated for companies. For the self-employed, the transition was not elaborated. The law can be considered a success because a number of principles have been implemented: transparency, simplification. The corporate taxation has not been touched. The sole proprietorship and corporate categories are separated. Meanwhile, in practice, they are not separated, whoever is a member of a limited partnership also could be a farmer.

The new law has had several effects on the institutional system. The NÉBIH registers the farmers, there have been minor changes, the registration system had to be modified; they have a new system for managing the data. The biggest changes were introduced at the NAK. The CSMTs are registered by them, which was not the case before. In the case of NAV, essentially only the tax return forms have changed.

The law is positive for the security of food supply because it contributes to the survival of farms and thus to the security of food production. Taxation of small farmers remains favourable. From a fiscal point of view, it is not very significant therefore seems to be financially sustainable and also sustainable technically and politically, political parties agree on this issue. In the longer term, new expectations can be formulated.

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Figure 2: Reform of primary producers and family farm system in Hungarian Chamber of Agriculture (NAK) website Table of selectable categories, Link: <https://www.nak.hu/csg> Figure 3: Brief description of the primary agricultural producers in Hungarian Chamber of Agriculture (NAK) website, Information booklet about primary producers, Link: <https://www.nak.hu/csg/ostermelo>

Figure 4: Brief description of the family farm of primary agricultural producers in Hungarian Chamber of Agriculture (NAK) website, Information booklet about Family farm of primary agricultural producers. Link: <https://www.nak.hu/csg/ocsg>

Figure 5: Brief description of the family farming company (CSMT) in: Hungarian Chamber of Agriculture (NAK) website, Information booklet about Family Farming Company, Link: <https://www.nak.hu/csg/csmt>

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Abbreviations and Glossary

Őstermelők családi gazdasága (ŐCsG)	Family farm of primary agricultural producers
Őstermelő	Primary agricultural producer a small producer / special administration category, app. licensed traditional small-scale producer: a non-entrepreneur private farmer, who conducts activities listed in the relevant law on his/her own farm and holds a registered licence for the activity.
Közös őstermelő	Common primary agricultural producers
Családi gazdaság	Family farm
Családi mezőgazdasági társaság (CsMT)	Family Farming Company
Egyéni vállalkozó	Private entrepreneur
Falugazdász	Rural consultant
Kistermelő	Small-scale producer
KATA: Kisadózó vállalkozók tételes adója	Itemised tax for small businesses
NAV: Nemzeti Adó- és Vámhivatal	National Tax and Customs Administration
NAK: Nemzeti Agrárgazdasági Kamara	Hungarian Chamber of Agriculture
NÉBIH: Nemzeti Élelmiszerlánc-biztonsági Hivatal	National Food Chain Safety Agency
AGRYA: Fiatal Gazdák Magyarországi Szövetsége	Hungarian Association of Young Farmers
FELIR: élelmiszerlánc-felügyeleti nyilvántartás	Food chain surveillance registry (operated by the National Food Chain Safety Agency)

Annex: Interview outline for policy making actors

Interview questions

Topic 1: Circumstances prior to the formulation of the policy

- Are you aware of the needs and antecedents of the law enabling the creation of family farms?
- In what way did the drafters of the law reveal the problems related to family farms? (media, social negotiation, conflicts)

Topic 2: Development of the policy

- Are you aware of what previous alternatives were available to solve the problem targeted by the law?
- Who was included in the social consultation?
- How were the policy goals and tools formulated and finalized?
- Were tools used for its development (e.g. SWOT, Problem tree, logical framework, and previous data).
- Were there any discussions regarding budgetary needs?

Topic 3: Implementation of the policy

- Are you aware of the stages and chains of preparation and negotiation that the law went through when creating the law in relation to the policy?
- What decision-making mechanism took place?
- How clear, uncontroversial and well defined is the law?
- How does it fit into the specialties of family farms?
- What methodology or tool was used during the drafting of the law (e.g. SWOT, Problem tree, logical framework)?

Topic 4: Implementation of the policy, new decision-making

- How did the law change the previous regulation?
- What are the differences between the entry into force of the previous and current regulations? Did the design of the implementation meet the set goals?
- Were any planning tools used in this phase (e.g. SWOT, Problem Tree, and Logical Framework). What specific strategies do you adopt? Was top-down or bottom-up implementation typical?
- What capacities, institutional system or other elements supported the implementation? Are they aware of any conflicts at this stage, and if so, what kind?
- What do you think of the cooperative relationship between the parties involved?
- What are the visible results and effects of the implementation (e.g. also on other programs)? What problems were faced and dealt with?

Topic 5: Monitoring and evaluation of policy

- Do you know how the policy is evaluated and monitored?
- Is there data collection, is monitoring systematic, does social involvement apply?
- Has the policy ever been evaluated? If so, who did it, was it complete or partial?
- According to which indicators was it carried out? Have the set goals been achieved?
- What outputs were realized? Is there any supporting data? Unforeseen effects?

- Did the beneficiaries participate in the monitoring? Do they evaluate the implementation of the policy as a success or a failure?
- Who used the monitoring results and how? In what way did policy "learn" from experience?

Topic 6: Conclusions:

- What are the characteristics of successful stages in policy development?
- How can these influence the following stages?
- How is it coordinated during Development?
- How can decisions in one program stage influence the other ones?
- How did actors coordinate policy/program development among the stages?
- How did the actors manage to build positive actions and differentiation of policies for family farmers? In what ways did family farms benefit from the policy?
- What effect did it have on the institutional system, the behaviour and decisions of the actors? Is the policy sustainable (technical, political, financial aspects)?
- How is it related to other national or professional policies?



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