

# Audit on mineral oil tax refunds in agriculture

Federal Department of Finance, Federal Department of Economic Affairs, Education and Research, Federal Customs Administration, Federal Office for Agriculture

## Key facts

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Mineral oil tax brings in CHF 4.7 billion a year for the Confederation. Fuels used in the agricultural sector get preferential treatment, as the tax is reduced by 77%. In this way, CHF 65 million is returned to 44,000 farmers each year. The Federal Department of Finance (FDF) is at the heart of the system. It has the power to set the refund rates and procedures. Implementation is delegated to the Federal Customs Administration (FCA).

The refund is based on a fuel consumption estimate calculated on the basis of the size of the area cultivated and the crop type. This method avoids an individual declaration of the fuel consumed and thus reduces the system's administrative burden for both the FCA and farmers. However, farmers must request the refund each year.

For the Swiss Federal Audit Office (SFAO), this refund mechanism appears outdated and inconsistent with the provisions governing financial aids.

### **Lack of coordination with direct payments**

This policy, which is more than a century old, has always been considered a sectoral economic aid for agriculture. It was not called into question when direct payments were introduced. Yet direct payments are the main support instrument for agriculture, with mineral oil tax refunds representing only 2% of the amounts allocated by means of direct payments. At the institutional level, direct payments and mineral oil tax refunds are managed by two different departments.

This measure also appears to be inconsistent with the Federal Subsidies Act, which in principle prohibits financial aids in the form of tax relief. The refund policy is also in contradiction with some of Switzerland's international climate commitments.

### **While the repayment method is efficient, steering by the FDF is non-existent**

The FDF has the power to determine the refund level for the basic tax, whereas the total refund of the surtax is set by law. In order to make its decision, the FDF has to assess the economic need for the aid. In 2015, it returned CHF 32 million, i.e. around 62% of the amount at its disposal. The FDF does not intervene even though the law allows it to do so. For diesel, the rate has remained unchanged for the past thirty years. It is also applied invariably to very different economic sectors, going from fishing to the natural stone extraction industry. Furthermore, the method used by operators to estimate fuel consumption, on which the entire refund system is based, has not been systematically verified for several decades. The few parameters revised periodically were revised following requests from groups of agricultural producers and on a rather unclear basis.

The refund procedure established by the FCA is efficient. It has also been optimised regularly. However, the overall administrative burden for farmers, who have to claim a refund annually, and the implementation costs for the Confederation must not be overlooked. The SFAO estimates them to be a few hundred thousand francs per year.

### **A marginal economic effect given the scattered nature of the aid**

In terms of effects, the SFAO found that, although this policy helps to align the pump price of diesel with that of neighbouring countries, its impact on production costs remains extremely modest. The refunds of CHF 1,478 on average per operation help to reduce the recipients' production costs by 0.6%.

Finally, the SFAO found 7,000 farms that do not submit any refund request to the FCA even though they would be entitled to one based on their surface area. These are generally very small farms. It is not known why the requests were not submitted.

On the basis of these findings, the SFAO recommends that the FDF, in cooperation with the Federal Department of Economic Affairs, Education and Research, prepare a legislative revision to abolish mineral oil tax refunds in agriculture. Economic support for this sector must be provided via direct payments. It is in this context that the objectives and coordination of the various forms of aid should be examined, e.g. regarding the energy needs of Swiss agriculture<sup>1</sup>.

**Original text in German**

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<sup>1</sup> See the Federal Council's response of 21 June 2017 to postulate number 13.3682n "Energy needs of Swiss agriculture: current situation and scope for improvement".