The one of the five main requirements against ideal taxation system is neutrality that means it has no impact on economic efficiency of taxpayers. Therefore taxation system does not distort the efficient allocation of resources (Stiglitz, 2000).

The general regulation of Hungarian taxation system has been developed taking into account this criteria. The taxation principles of two basic management forms (individual entrepreneurs and corporations) are the same. Both of them pay two-level tax: based on the business activity pay income tax at farm level, and based on private income pay dividend tax.

A taxation rules of agriculture are different from the general regulation, which can be explained by historical causes. The privatization during economic transition at the early 1990’s issued fundamental changes in structure of agricultural holdings. As a result of it the 86-88 per cent of agricultural land was owned by natural persons.

In order to facilitate the changes that took place in the sector the concept of traditional small-scale producer (őstermelő) was introduced in taxation system in 1997. Significant tax allowances related to this category at certain level of revenues such as flexible cost accounting, reduced taxation base, one-level tax and favourable accounting of subventions. This measurement served as a survival in this period.

After almost 20 years from the introduction of traditional small-scale producers’ taxation many changes have occurred in the field of agriculture. Hungary became a member of the EU in 2004, thus supports have significantly raised and prices (mainly in case of crops) have started an increasing trends. Due to these factors the income in Hungarian agriculture has improved significantly and the importance of favourable taxation of traditional small-scale producers has decreased. This taxation form ensures an undue advantage for the traditional small-scale producers and allowances related to income limits have become an obstacle of their development.

The aim of this paper is to investigate the impact of taxation system on technical efficiency. At first we examined the tax burden of traditional small-scale producers, individual entrepreneurs and corporate farms based on the data of National Tax and Customs Administration. To make the comparison of the different forms of taxing we calculated tax burden indicators with equivalent content between 2008 and 2013. The results indicate that the level of tax burdens of primary producers are lower than that of individual entrepreneurs or corporations.

In the second stage of our analyses the efficiency scores were investigated in these three groups based on FADN data using Data Envelopment Analyses (DEA) for the same period. The different support level of agricultural sectors indicate us to make the efficiency calculations for these major sectors such
as crop, vegetable and fruit production as well as poultry, beef and milk, and pork. The results show a lower efficiency for traditional small-scale producers in four out of six cases.

*Keywords:* taxation, agriculture, efficiency, Hungary