

TAX POLICY OF THE REPUBLIC OF BULGARIA FOR THE PERIOD 2007-2013

The state fiscal policy as a set of decisions, norms and regulations of the central government authorities in terms of distribution and redistribution of the national income pursues economic and social objectives whose fulfillment would be unattainable in the absence of financial resources ensuring their achievement. The accumulation of sufficient state's revenues in the state treasury and their targeted allocation by state expenditures determine the possibility of the state to influence the socio-economic processes emphasizing the importance of state revenues for the national economy. This significance is especially obvious in terms of economic recession and crisis when the insufficiency of the accumulated own revenues in the state treasury imposes a demand for loan resources or a reformative approach to tax policy in order to overcome the impact of negative effects.

It is known that the magnitude and directions of the ongoing national expenditures are highly dependent on the size and structure of budget revenues. In view of their importance for the existence of the state and the implementation of its functions, the subject of this research is the tax policy of the Republic of Bulgaria and its consolidated monetary fund for the period 2007-2013. The goal which the author sets is to reveal the importance of separate sources of revenue for the state treasury and to outline trends in their development by structural and dynamic analysis of the revenue part of the consolidated fiscal program (CFP) and the assessment of the ongoing state policy in times of economic crisis.

In accordance with the adopted by the Republic of Bulgaria methodology of accounting, the revenue side of the consolidated state budget is formed by tax and non-tax revenues and grants. The most significant component of this revenue part is the tax revenue – around 77% of all annual revenues.¹ In 2007, 80% of the disposable revenue of the Republic of Bulgaria was provided by grants and final payments (taxes); 15% was provided by property, state fees, fines, penalties and penalty interests; and 5% – in the form of aid. Given the fact that 2007 is the year of our accession to the EU, of great interest is the study of changes in financial flows of tax revenues as a result of changes in indirect taxation in connection with the fiscal harmoni-

zation with the EU. It is also interesting to trace the reduction in a tax burden of direct taxes for stimulating investments, the growth in a production and the increase in real income of households.

Changes in the tax policy of the Republic of Bulgaria in 2007 were:

- New taxation regime with the Value Added Tax (VAT) in a connection with the fiscal harmonization;
- An increase of excise rates and an expansion of the range of entities, subjects to excise duty;
- The tax rate reduction of the corporate income tax by 5%;
- An increase of taxable minimum in the combined tax progression and an increase of tax relief for children;
- The taxation of foreign individuals under the Personal Income Tax Act which were outside the scope of the Corporate Income Tax Act.

In the year of the accession of the Republic of Bulgaria to the EU, 19.3 billion BGN tax revenues were accumulated in the state treasury, taking into account the growth of 18% compared to 2006. The most important significance of this had reforms in the field of the taxation of personal income, corporate profits and excise duties. The decrease in the tax rate of the corporate income tax from 15% to 10%, in terms of high corporate economic activity, resulted in an increase in revenues from taxes on profits in the amount of 37% year-over-year². Revenues from the personal income tax increased by the same amount. The leading cause of this was the introduced at the beginning of the year changes, aimed at reducing the tax burden (by increasing the non-taxable minimum) and increasing real incomes of the population. Also incomes of foreign individuals were taxed under a new methodology – the Personal Income Tax Act with a withholding tax, not under the Corporate Income Tax Act. The increase of excise duties and the expansion of the range of taxable goods positively affected the growth of revenues from excise duties, which increased by 33% compared to 2006, forming 14% of total revenues in

² See. Angelov, G., The Access to Financing of Small and Medium Enterprises as the Main Accent in Strategy "Europe 2020", Financial Education and Scientific Researches in Bulgarian Universities - Strategy "Europe 2020": Scientific – Methodical Conference; Proceedings – Svishtov, 9-10.November 2012, Tsenov Academic Publishing House, p. 297-303.

¹ For more details see: Adamov, V. Theory of Finance, The "Education and Science" research library, Vol. 100, Tsenov Academic Publishing House, 2015, p. 86-103.

the Consolidated Fiscal Programme compared with 12% a year later¹. Changes in the field of indirect tax legislation, aimed at harmonization with the requirements of the EU, and the new Value Added Tax regime, in terms of a high volume of import into the country, were the basis of an increase in revenues from this tax form by 13% year-over-year. Positive development was also observed in revenues from social security contributions which also increased by 13% for the same period.

The presented positive changes in the structural components of tax revenues were not only confirmed in terms of customs duties and fees which registered 58 per cent reduction. The country membership in the EU was the reason for the abolition of customs duties among the member states of the Community and the

implementation of a common policy with regard to third countries, adversely affecting the “customs duties and fees” item of the Consolidated Fiscal Programme.

In 2008 – the year which marked the emergence of the global financial crisis – budget revenue indicators of the Republic of Bulgaria were positive: consolidated revenues compared to the previous year increased by 14%, tax revenues rose by 15 % and non-tax revenues increased by 13 %. The negative growth of 5% was observed only in regard of grants. The increase in tax revenues was determined by several circumstances such as: the replacement of progressive taxation with proportional one; a change in the burden of social security contributions between the employee and the employer from 35:65 to 40:60 and an increase in excise rates.

Table 1

Consolidated fiscal revenues of the Republic of Bulgaria (in millions BGN)

Consolidated Fiscal Programme	2006	2007	2008	2009	2010	2011	2012	2013
Tax revenues	16325.9	19 323.8	22 166.9	20 171.9	19 014.4	20 594.2	21 529.0	22 370.3
relative share	81%	80%	81%	81%	79%	81%	78%	77%
1.Taxes on profits	1 334.1	1 832.6	2 228.5	1 762.3	1 353.3	1 495.9	1 478.1	1 553.0
relative share	7%	8%	8%	7%	6%	6%	5%	5%
2.Income tax on individuals	1 324.6	1 808.7	1 971.5	2 051.1	2 031.2	2 179.6	2 297.7	2 348.5
relative share	7%	8%	7%	8%	8%	9%	8%	8%
3.Value Added Tax	5 823.8	6 598.5	7 485.3	6 432.5	6 267.1	6 611.7	7 151.9	7 366.5
relative share	29%	27%	27%	26%	26%	26%	26%	25%
4.Excise duties and road tax	2 498.0	3 315.4	4 051.6	3 844.5	3 567.9	3 860.1	4 047.8	4 055.8
relative share	12%	14%	15%	15%	15%	15%	15%	14%
5. Customs duties and fees	454.9	193.0	221.0	121.6	119.2	131.3	117.7	146.2
relative share	2.3%	0.8%	0.8%	0.5%	0.5%	0.5%	0.4%	0.5%
6.Social and health insurance contributions	4 309.1	4 890.3	5 392.6	5 273.1	4 969.8	5 509.6	5 596.0	6 060.2
relative share	22%	20%	20%	21%	21%	22%	20%	21%
7.Other taxes	581.5	685.3	815.4	685.7	704.9	783.0	813.4	816.9
relative share	2.9%	2.8%	3.0%	2.7%	2.9%	3.1%	3.0%	2.8%
8. Tax on the production of sugar	*	*	1.0	1.0	1.0	1.5	1.0	1.0
relative share	*	*	0.004%	0.004%	0.004%	0.006%	0.004%	0.004%
9. Tax on insurance premiums	*	*	0.0	0.0	0.0	21.6	25.4	22.3
relative share	*	*	*	*	*	0.09%	0.09%	0.08%
II. Non tax revenues	3 072.6	3 535.1	4 004.6	3 542.8	3 315.4	3 320.7	3 573.0	3 950.5
relative share	15%	15%	15%	14%	14%	13%	13%	14%
III. Grants	635.5	1 204.2	1 141.7	1 326.2	1 602.9	1 463.2	2 367.5	2 656.3
relative share	3%	5%	4%	5%	7%	6%	9%	9%
Total revenues and grants	20034.0	24063.0	27313.2	25040.9	23932.6	25378.1	27469.4	28977.2

Source: The Ministry of Finance/

¹ Dimitrova, T., Dimensions of Excise Policy in Bulgaria, Business Management, 24, № 4, Tsenov Academic Publishing House, 2014, p. 36-65.

One of the most important tax changes in 2008 concerned the taxation of individuals' income by the replacement of progressive taxation with proportional one with an equal tax rate of 10% for all incomes, regardless of their size, canceling the existing tax-free threshold and the right to use tax relief for children. The reform aimed an increase in the disposable monetary fund of employees who received higher income, respectively an increase in household savings¹. The new mechanism of taxation also had a positive effect on the state treasury: revenues from the taxation of individuals' income in 2008 marked 9% growth compared with 2007 and the cause of this was canceling the existing tax-free threshold.

The positive effects of the reduction of the rate of the corporative income tax were retained in 2008 with a growth of 22 %. Revenues from taxation of excise goods increased by the same percent as a result of increased consumption and tax rates. The reduced social security burden for employers (from 65:35 to 60:40 at the expense of an employee) has stimulated higher investment activity and labour demand, as a result the revenues of social contributions reached 5.4 billion BGN compared to 4.9 billion BGN in 2007. A positive change also had revenues from customs duties and fees, increasing by 14% to reach 221 million BGN in 2008.

Referring to the historical experience, the management of the state finances in times of economic crisis is a task of significant difficulty, given the delayed or negative speed of economic development and a limitation of the revenues from the ongoing distribution and redistribution processes. In other words, the socio-economic situation affects the revenue part of the state budget, and the Republic of Bulgaria is not an exception in this regard. Although revenues and grants under the consolidated fiscal program of the Republic of Bulgaria for the period 2007-2013 increased by 20.4% (4.9 billion BGN), the dynamic analysis was an evidence of irregular changes of an annual basis, the leading cause of which was the negative effect of the worldwide spread economic crisis. Its reflections were observed especially **in 2009 and 2010** when the growth of total revenues during the last two years (2007 and 2008) was followed by a two years decrease – 8% in 2009 and 4% in 2010 compared to the previous year. The structural analysis of the revenue part of the consolidated fiscal program has reflected the cyclical changes and has corresponded to deteriorating economic situation as a result of which there have been some changes in the financial inflows and outflows of the state. The limited business activity and deteriorating financial results adversely affected revenues from

taxes on profits – while in 2008 their nominal value was 2.23 billion BGN, a year later they decreased by 21% (444.2 million BGN) to 1.76 billion BGN. The negative tendency continued in 2009 when the change in an annual basis was in larger size – 23% compared to the previous year.

The interdependence among sectors in the national economy (the state, companies in the real sector, financial intermediaries and households) explains the changes in: the labour payment; the disposable income of households and the limitation of their consumption; the demand of loan resources and the effects on revenues from the taxes on profits of individuals, the VAT tax, the excise duties, social and insurance contributions². The analysis of the above mentioned four tax revenues (which formed 70% of revenues in the Consolidated Fiscal Programme) determined that in the period 2009-2010 when the Bulgarian Economy was suffering from the global economic crisis only the revenues from the taxes on profits of individuals did not record significant reductions and even in 2009 they increased by 4% compared to 2008. This, at first glance, is contrary to the economic logic and can be explained by the reform of the tax system of the Republic of Bulgaria from 2008 in the field of the taxation of the individuals' income which has replaced the progressive tax scale with the proportional 10 percent tax. The lack of opportunity for „more slightly” taxation of lower incomes, as a result of the abolition of non-taxable income and other levels of combined tax progression, adversely has influenced on the disposable incomes of the households, but has influenced positively on the fisc. The evidence of this was the revenues from the corresponding tax amounting to 2.05 billion BGN and 2.03 billion in 2009 and 2010. The most important source of revenues for the state treasury – the Value Added Tax decreased to 1.05 billion BGN (or by 15%) in 2009 compared to 2008, followed by a new 3% reduction in 2010. Another representative of the indirect taxation and the second most important source of the financial resources for the state – excise duties also decreased respectively 5% and 7% in 2009 and 2010. Social and health insurance contributions decreased for this period totally by 423 million BGN and on an annual basis the negative growth was 2% in 2009 and 6% in 2010. The other components of the revenue side of the consolidated state budget (customs

¹ See. Adamov, V., Dimitrova, T. at al. Techniques of Taxation, 7. Revised and expanded edition. Tsenov Academic Publishing House, 2013, The “Education and Science” research library, Book 60., p. 13-33.

² See. Adamov, V. Theory of Finance, The “Education and Science” research library“, Book 100, Tsenov Academic Publishing House, 2015, p. 17-37. and Marinov, I., Factor Impacts on Consumer Lending in Bulgaria // Financial Education and Scientific Researches in Bulgarian Universities - Strategy “Europe 2020”: Scientific – methodical conference; Proceedings – Svishtov, 9-10.November 2012, Tsenov Academic Publishing House, p. 317-324.

An annual change in revenues in the Consolidated Fiscal Programme of the Republic of Bulgaria

Consolidated Fiscal Programme	2007	2008	2009	2010	2011	2012	2013
I. Total revenues	20.1%	13.5%	-8.3%	-4.4%	6.0%	8.2%	5.5%
1. Tax revenues	18.4%	14.7%	-9.0%	-5.7%	8.3%	4.5%	3.9%
2. Taxes on profits	37.4%	21.6%	-20.9%	-23.2%	10.5%	-1.2%	5.1%
3. Income tax on individuals	36.5%	9.0%	4.0%	-1.0%	7.3%	5.4%	2.2%
4. Value Added Tax	13.3%	13.4%	-14.1%	-2.6%	5.5%	8.2%	3.0%
5. Excise duties and road tax	32.7%	22.2%	-5.1%	-7.2%	8.2%	4.9%	0.2%
6. Customs duties and fees	-57.6%	14.5%	-45.0%	-2.0%	10.2%	-10.4%	24.2%
7. Social and health insurance contributions	13.5%	10.3%	-2.2%	-5.8%	10.9%	1.6%	8.3%
8. Other taxes	17.9%	19.0%	-15.9%	2.8%	11.1%	3.9%	0.4%
9. Tax on the production of sugar	*	*	1.6%	0.0%	0.2%	-28.3%	0.0%
10. Tax on insurance premiums	*	*	*	*	*	17.9%	-12.2%
II. Non tax revenues	15.1%	13.3%	-11.5%	-6.4%	0.2%	7.6%	10.6%
III. Grants	89.5%	-5.2%	16.2%	20.9%	-8.7%	61.8%	12.2%

Source: The Ministry of Finance/

duties and taxes, a tax on a sugar production, a tax on insurance premiums) did not have a significant role on the annual rate of change in total revenues given the amount of the incoming financial resources.

The negative trend of lower own revenues in the state treasury was overcome in 2011 with the adopted new approaches for the management of state finances in terms of delayed economic growth. Total revenues and grants received in the consolidated budget in 2011 amounted to 25.38 billion BGN which was 33.7% of the Gross Domestic Product (GDP) of the country. Compared with the previous year the growth was 6 percent and the tax revenues were with the most significant contribution. A positive change was observed for all structure components of tax revenues and especially in the tax on sugar production (39%), income tax on individuals (11%) and social and health insurance contributions (11%). It should be pointed that conclusions regarding the significance of separate tax forms in the revenue side of the consolidated fiscal programme would not be objective without taking into account their nominal values. In this sense, the role of the indicated growth of 39% in the tax on sugar production, for instance, due to the nominal increase from 1 million BGN in 2010 to 1.5 million BGN in 2011 was less significant for the reported 6% growth of total revenues compared with the Value Added Tax whose annual growth rate was 5% (344.6 million BGN).

In 2011 the negative trend of growth compared to the previous year had only revenues from grants (9%). In 2012 such negative results were observed for: taxes on profits (1%), customs duties and fees (10%) and the tax on the production of sugar (28%). It should be noted that, given the limited financial incomes from them, the effect on total revenues was equal to the 9% decrease in grants in 2011. With regard to the other tax revenues, changes have been in a positive direction and

it is necessary to highlight the following important points:

- In 2012 compared to the previous year, there were 5% more revenues from excise duties, mainly due to an increased part of taxed tobacco products and higher revenues from excise duties on fuel;

- The effect of slowdown in the economic activity could be seen mainly in revenues from income tax on individuals which increased by 5% compared with the 7% growth in 2011;

- Total revenues from taxes on profits during the observed year decreased by 1% as a result of the inability of the increased corporate tax revenues to compensate the decline in contributions from tax on dividends, liquidation shares and incomes of domestic and foreign legal entities¹.

In 2013, the ongoing process of gradual recovery of the Bulgarian economy had a positive effect on the development of budget revenues which for the third consecutive year after 2011 recorded an annual growth, in this case 5%. Indirect taxes (in particular the Value Added Tax) and social and health insurance contributions had an essential role. They increased by respectively 3% and 8% annually and formed 46% of total revenues in budget. A growth was observed in taxes on a profit – 5% compared to 2012 and unchanged were revenues from excise duties, the tax on sugar production and the item “other taxes”.

It is known that the presentation of budget indicators in absolute amounts or their comparison with the previous year measured values has its informative significance. The current analysis would be incomplete without presenting budget revenues in relative values

¹ For more details see. The Economy of Bulgaria, annual report of the Ministry of Finance, department “Economic and Financial Policy”, 2007 and 2012.

compared to the leading indicator of economic activity in the country, namely the Gross Domestic Product. The data in Table 3 are indicative for the correlation between the coefficient “Revenues on the consolidated state budget (CSD)/GDP” and the cyclical development of the national economy. At the beginning of the studied period (2007) when the economic crisis was still far from the borders of Europe, total revenues of the Consolidated Fiscal Programme amounted to 40% of the GDP of the Republic of Bulgaria. Here we should note that this was the year with the highest recorded GDP growth on a chain basis of 15%. From 2008 to 2012 the indicator “Revenues on the consolidated state budget (CSD)/GDP” annually declined respectively with 2.8% and 2.7% in 2009 and 2010. The reason for the situation in 2009 was the simultane-

ous decrease of the GDP by 1.4% compared to the 8 per cent drop in revenues of the Consolidated Fiscal Programme. The economic growth in 2010, measured by 3.2 per cent increase in the GDP, failed to compensate the decrease in tax revenues, non-tax forms and grants, and as a result the relative value of government revenues compared to the GDP (coefficient “Revenues on the consolidated state budget/GDP”) decreased by 2.7%. The proven negative trend was overcome in 2012 when the studied indicator increased by 1.5 per cent in 2011, reflecting the started in the Bulgarian Economy processes of gradual recovery from the recession. The positive change in the coefficient continued in 2013 when the revenues and grants in the Consolidated Fiscal Programme were 37.1% of the GDP in Bulgaria, compared with 35.2% in 2012.

Table 3

The dynamic of coefficient Revenues on the Consolidated State budget / the Gross Domestic Product of the Republic of Bulgaria

Years:	2006	2007	2008	2009	2010	2011	2012	2013
GDP (million BGN)	51 783	60 185	69 295	68 322	70 511	75 308	78 089	78 115
Revenues on the Consolidated State Budget (million BGN)	20 034	24 063	27 313	25 040	23 932	25 378	27 469	28 977
Coefficient Revenues on the Consolidated State budget / the GDP	40.8%	40.0%	39.4%	36.7%	33.9%	33.7%	35.2%	37.1%

Source: The Ministry of Finance/

The outlined trends in the structure and dynamics of consolidated state revenues for the period 2007-2013 responded to the socio-economic situation in the Republic of Bulgaria and were an evidence of the dependence of the revenue system of the country from the cyclical development of the national economy. In this regard, positive assessments have the country's accession to the EU and conducted under the researched period fiscal harmonization and tax reforms. As a result the cumulative growth of financial revenues on the Consolidated Fiscal Programme for the researched period was 41%. The structural analysis determines the leading tax forms, placed at the base of the expenditure system in the Republic of Bulgaria, which are: indirect taxes in the form of value added tax and excise duties, as well as the tax on individual's income and social and insurance contributions. The adequate distribution of these (and all the other) state financial revenues ensures the impact on all aspects of the social reproduction process and the achievement of the state economic and social aims.

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Павлова М. Податкова політика Республіки Болгарія в 2007-2013 рр.

Бюджетна політика, що проводиться державою, має два виміри – урядові доходи і їх цілеспрямоване розміщення відповідно до соціально-економічної необхідності (урядові витрати) – лежить в основі розвитку народного господарства. Накопичення доходів достатніх державі для того, щоб гарантувати її витрати – завдання першорядної ваги, особливо в термінах макроекономічної нестійкості, коли урядове втручання істотно для своєчасного подолання економічного спаду або кризи. В цьому відношенні, аналіз митної сторони консолідованої фінансової програми і оцінки тривалої державної політики Республіки Болгарія за час економічної кризи – поточні теми з науковим і прикладним інтересом.

Ключові слова: податок, бюджетна політика, держава, розвиток.

Павлова М. Налоговая политика Республики Болгария в 2007-2013 гг.

Бюджетная политика, проводимая государством, в нем два измерения – правительственные доходы и их целенаправленное размещение в соответствии с социально-экономической необходимостью (правительственные расходы) – лежит в основе развития народного хозяйства. Накопление доходов достаточных государству для того, чтобы гарантировать его расходы – задача первостепенной важности, особенно в терминах макроекономиче-

ской неустойчивости, когда правительственное вмешательство существенно для своевременного преодоления экономического спада или кризиса. В этом отношении, анализ таможенной стороны консолидированной финансовой программы и оценки продолжающейся государственной политики Республики Болгария за время экономического кризиса – текущие темы с научным и прикладным интересом.

Ключевые слова: налог, бюджетная политика, государство, развитие.

Pavlova M. Tax Policy of the republic of Bulgaria for the Period 2007-2013

The fiscal policy, conducted by the state, in its two dimensions – government revenues and their targeted allocation in accordance with the socio-economic needs (government expenditures) – is the basis of the national economy development. The accumulation of sufficient state's revenues in order to ensure its expenditures is a task of primary importance, especially in terms of macroeconomic instability, when the government intervention is essential for the timely overcoming of the economic recession or crisis. In this regard, the analysis of the revenue side of the consolidated fiscal program and the evaluation of ongoing state policy of the Republic of Bulgaria in times of economic crisis are current topics with scientific and applied interest. In the study, the importance of the separate tax forms for the state treasury is revealed, tendencies and tax forms' development through structural and dynamic analysis of the revenue part of the consolidated fiscal program are outlined and the state tax policy for the period 2007-2013 is estimated.

Keywords: tax, fiscal policy, state, development.

JEL: H23, H24, H61

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