Tax System of the Republic of Bulgaria as a Destructive Factor in State Development

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ABSTRACT: This study presents the analysis of the tax system in the Republic of Bulgaria since the country's accession to the European Union has influenced its development and further economic integration into the global community. The research goal is to analyze the tax policy of the Republic of Bulgaria as a factor in the destructive state development as its taxation needs improvement in terms of tax collection, information security, and data transfer, along with the inefficient structure of direct and indirect taxes. As the hypothesis of the research, the authors considered promising approaches to overcoming the destructive nature of Bulgaria's state system by developing an effective mechanism of tax policy and improving the tax system in line with the modern conditions. The methodological basis of the research is represented by general scientific, private and special methods of cognition. Their combination allowed the authors to analyze the studied issue and to draw appropriate conclusions. **Keywords**: tax policy, taxation, indirect taxes, excise taxes, value added tax, Republic of Bulgaria.

1.INTRODUCTION

There is a good reason for choosing such a controversial research topic. On January 1, 2007, Bulgaria became a member of the European Union (hereinafter referred to as the EU). For many years of the transition period, Bulgaria pursued a policy of convergence and integration into this unique multinational community, which could not but affect its tax system. Economic integration in the EU is a specific feature of globalization, which occurs in the global economy and contributes to the optimization of the global economic processes. The European Union is open to all countries that meet the criteria for membership in all areas of their economy, legal regulation, social and environmental protection.

Membership in the EU requires a candidate country to have certain stable institutions: firstly, the ones that guarantee democracy, the rule of law, human rights, respect and protection of minorities; secondly, the ones necessary for a market economy and the ability to cope with the competitive pressure and market forces in the Union; thirdly, the institutions that enable a country to undertake the membership obligations, including adherence to the goals of the political, economic, and monetary union.

Bulgaria's accession the EU had both benefits and drawbacks. The completed multi-stage transition the country undertook stimulated the business community, which, in turn, created favorable conditions for the further development of the market economy in Bulgaria.

As of 2008, “Bulgaria is among the EU leaders (ranked sixth) in terms of GDP growth. According to the Association of European Chambers of Commerce, Bulgaria ranks second, after Denmark, regarding the assessment of the business climate in the EU countries. Bulgaria took the ninth place in the world and the first place among the countries of Central and Eastern Europe regarding its investment attractiveness” (Bozhinova *et al.*, 2008).

After joining the EU, developing a set of measures aimed at stimulating the effective and sustainable growth of the national economy became the priority of tax policy. Particular emphasis is placed on the elimination of illegal actions by industrial and commercial structures in the field of taxation, as well as returning the funds received from illegal trade operations to Bulgaria. Within the foreign policy associated with the country’s joining the EU in 2007, Bulgaria’s government is to ensure the compliance of the national tax legislation with the EU standards.

The first steps in this direction were taken from 2006 to 2007. By 2008, Bulgaria ranked first among 178 countries regarding the successful implementation of tax reform. This was due to the fact that the lenient tax policy implemented by the government, which “introduced a 10% corporate tax rate, a 10% flat tax rate, a zero tax rate on capital gains, a zero tax rate on the profits of municipalities in which the unemployment rate equals 35 % and exceeds the national average” (Bozhinova *et al.*, 2008). Currently, Bulgaria remains the country with the lowest income tax in the European Union – 10%, which is 4 times lower than the average level (38% for the European Union and 43% for the euro area) (Vasileva, 2012).

Despite the positive aspects of the 2008 tax reform, Bulgaria could not cope with the global financial and economic crisis. The credit market, the real sector and, last but not least, the labor market suffered heavy losses. At present, Bulgaria is a country of endless crisis. Under the current conditions, Bulgaria cannot maintain high GDP growth, which leads to a reduction in foreign investment and, accordingly, to an increase in the budget deficit.

The relevance of the research is determined by the fact that nowadays Bulgaria should develop a clear tax policy that would enable a radical change in the economic situation in the country. The research goal is to analyze the tax policy of the Republic of Bulgaria as a factor in the destructive state development, since its taxation needs improvement in the areas of tax collection, information security, and data transfer. In addition to this, it has an inefficient structure of direct and indirect taxes (more than 3% taxes in Bulgaria are indirect). As the hypothesis of the research, we considered promising approaches to overcoming the destructive nature of Bulgaria’s state system by developing an effective mechanism of tax policy and improving the tax system in line with the modern conditions.

2.RESEARCH METHODS

The methodological basis of the study included general scientific, private, and special methods of cognition. The general scientific dialectic method enabled us to consider the current problems of reforming the tax legislation in Bulgaria, to identify the positive and negative aspects of the modern tax reform, to analyze different opinions on this research topic, and to give examples of key changes in tax legislation.

The methods of formal logic were used to outline the transformations in the taxation at the present stage. In addition, these scientific methods were applied to study the current legislation with a focus on the considered problem, which helped us to identify certain deficiencies in regulation. We used comparative legal and formal legal methods to ensure the compliance of different legal norms. The combination of various methods allowed us to achieve the set research goal.

The analysis and generalization of the Bulgaria's experience in improving the national tax legislation lay the foundation for the harmonization of existing legislation, which will increase the coordination of state authorities and local governments.

The method of content analysis ensures the completeness, reliability, and consistency of the data obtained because of generalization. Prognostic methods were applied to identify development trends of the studied object and consider possible positive or negative consequences of the implementation of the tax legislation in the Republic of Bulgaria. To identify certain patterns and development trends of Bulgaria's tax legislation, we used some sociological (modeling and extrapolation) and statistical (classification and correlation) methods.

Qualitative research methods (analysis, generalization, comparison, and modeling) enabled us to put forward the hypotheses and productive ideas, as well as to understand and explain the available data. When working on this research, we used a combination of these methods.

The evolution of the Bulgaria's tax system, its current state, development prospects, the need for changing the direction of tax policy, increasing the role of taxes in the state regulation of the economy, and the effectiveness of their influence on the socio-economic development of the country were considered in many international papers (Obadić, A., Globan T., Nadoveza O. (2014); Dimova D. (2017); Simionescu M., Albu L.-L. (2016); Zabinski A., Sosnowski M. (2013); Ninov D. (2008)).

In her article "Fiscal decentralization and local finance reforms in Bulgaria: A review of ten years' experience" (Nenkova, 2014), P. Nenkova considered the increasing fiscal decentralization in Bulgaria from 2003 to 2012 by studying its key aspects: responsibility for expenses, distribution of income and intergovernmental transfers. In addition, the author reviewed various policies that might be applied to address the current problems of the local financial system.

A. Vasilev (2015) carried out quantitative assessment of the social effect following the introduction of proportional taxation in Bulgaria in 2008. Using a general equilibrium model with the data from the informal sector, he performed a computational experiment to assess the benefits of proportional taxation. A. Vasilev claims that the lower effective tax burden in the new tax regime results in people moving to the official sector, stimulates investment, and increases production and consumption.

We would also like to mention the study of S. B. Tanchev (2016), who considers the possibilities of combining proportional and progressive income tax in Bulgaria as factors promoting the economic growth.

3.RESULTS

It should be highlighted that there are some inconsistencies in the tax legislation in the Republic of Bulgaria: each type of tax is governed by a specific regulatory act. As a result, the tax legislation is quite extensive and not systematic, which complicates law enforcement. The structure of the tax system of the Republic of Bulgaria is presented below.

Types of taxes:

1. Personal income tax.
2. Value added tax.
3. Profit tax.
4. Corporate tax.
5. Patent tax.

6. Tax on the property required through a counterfeit.
7. Donation tax.
8. Tourist tax.
9. Inheritance tax.
10. Vehicle tax.
11. Real estate tax.
12. Tax on gambling.
13. Tax on budgetary enterprises income.
14. Tax on insurance premiums.
15. Operational tax on ships.
16. Tax on expenses.

It should be noted that taxation in the Republic of Bulgaria could be divided into:

- Direct taxes (corporate tax, personal income tax, taxes deducted at source, tax on expenses, and other taxes on certain activities);
- Indirect taxes (value added tax and excise taxes).

In this research, we will consider the role of indirect or indirect taxes in the taxation of the Republic of Bulgaria. The high share of these taxes reduces the consumption in the country and hinders economic development. The situation is further exacerbated by the flat income tax without an unpaid minimum, combined with almost regressive social security contributions. For the first half of 2019, tax revenues amounted to BGN 14.5 billion, which is 7.8% more compared to the previous year. Of this sum, BGN 7.1 billion fell at indirect taxes (VAT, excise taxes and duties). Direct taxes, i.e. personal income tax and profit tax, estimated BGN 2.8 billion, while other tax revenues came from social insurance and medical insurance contributions (BGN 4 billion) and other taxes (BGN 0.6 billion), which included property tax. This means that indirect taxes make up 48.9% of the treasury revenues, while direct taxes account for only 19.1% or 2.6 times less.

Indirect taxes are a consumption tax that falls on the customer, even if the seller pays it. A high share of this tax means a decrease in consumption. Thus, it is not surprising that Bulgaria has the largest share of its tax revenues from indirect taxes in the EU, and at the same time, it has the lowest consumption – only 53% of average European in 2016.

In 2018, Bulgaria received 53.5% of tax revenues from indirect taxes, compared to an average of 35.1% in the EU. Bulgaria is second only to Croatia in terms of VAT revenues, with its 30.9%, compared to the average 18.1% in the EU. In addition to this, Bulgaria has the highest excise income (18.8%), while in the EU this figure estimates 9.7%.

The situation with direct taxes is very different for Bulgaria: they make up 19.4% of the country’s income, and Bulgaria ranks 25th above Lithuania, Hungary, and Croatia. The average share of these taxes in the EU countries is 34.2%. Bulgaria also has one of the lowest levels of property tax (2%), compared to the EU with the average of 6.8%. Next, let us consider in detail indirect taxes in the Republic of Bulgaria.

Value Added Tax (VAT)

According to Bulgarian tax legislation, a company must be registered as a VAT payer in the following cases:

- For each person obligated to pay tax with a taxable turnover of BGN 50,000 or more in a period not exceeding the last 12 consecutive months before the current month;

- Each legal entity that is not required to pay tax or a person with a different registration who is obligated to pay tax, but who purchases goods worth more than BGN 20,000 within the community;

- A foreign person owing a permanent facility in the territory of the state in which he carries out economic activities and meets the conditions for compulsory registration;

- A foreign person who is not established in the territory of the state, but carries out taxable supplies from the place of execution on its territory and meets the requirements for compulsory registration.

It should be mentioned that if in those cases VAT is not registered before the occurrence of the specified events, then Bulgarian tax authorities would forcibly register the company as a VAT payer, charge VAT, and set penalties.

VAT is 20%, but the law establishes the basis for reducing the tax rate. For example, the rate for staying at a hotel during organized trips is 7%; for travel agencies, VAT is reduced to 9%.

According to Bulgaria's legislation, some areas of business are exempt from VAT. Firstly, this refers to the purchase and sale of dilapidated buildings or their parts (including adjacent land), as well as organizations; secondly, the purchase and sale of agricultural land and forests (in the event that the purpose of the land has not been changed, for example, for construction); thirdly, non-business transactions.

Excise tax. This is the indirect tax that is accrued in the Republic of Bulgaria for the following goods: alcoholic beverages (including wine and beer), tobacco products, energy products and electricity, cars, coffee and coffee extracts, gambling machines, and casino roulette.

These products can be supplied with deferred payment of excise tax in case they are:

- produced on the territory of the state;

- imported into the territory of the state from the territory of another member state;

- are imported into the territory of the state.

Import is considered to be carried out after the excisable goods are exempted from the customs regime and are admitted to free circulation. The obligation to pay excise tax arises from this moment.

The amount of the excise tax is determined differently for different types of goods: as a physical indicator (BGN per ton, BGN per kilogram, or alcohol proof); as a percentage of the transaction value or customs value upon import; or combined – a physical indicator plus a percentage of the cost.

4.DISCUSSION

Having analyzed the tax system of the Republic of Bulgaria, we can conclude that it is based on a clear state policy. Currently, the government program determines tax policy for the period from 2014 to 2019. Its main priorities are maintaining the rule of law and promoting institutions that work efficiently and transparently in the interests of citizens and guarantee conditions for decent life, personal development, maintenance of the tax system, a low share of gross domestic product redistributed by the government, as well as promote favorable tax environment. Taxation is the basis of the country's economic and fiscal policy and an important tool for regulating macroeconomic relations. Being a key element of fiscal policy, taxation should also be seen as an important lever stimulating foreign direct investment, economic growth, and employment.

An effective tax policy that ensures financial and macroeconomic stability as well as promotes economic growth, investment, and employment involves:

1) A comprehensive analysis of the tax policy of the Republic of Bulgaria;

2) Developing a new model of effective tax policy and the system reforms with tax preferences in accordance with the EU State Assistance Act 2014-2020;

3) Assessing the impact of the new budget policy model on budget revenues, economic development, investment, and employment;

4) Conducting public debates on the general tax policy of the country;

5) Creating a "road map" for the implementation of the new model of tax policy and reforms in the tax system;

6) Analyzing the tax system by types of taxes and their structural elements;

7) Reducing the administrative burden and costs for business and citizens;

8) Providing effective tax incentives to stimulate investment, innovation, and employment.

The state tax policy also aims to reduce the gray economy, combat tax fraud and tax evasion.

However, despite the clear tax policy in Bulgaria, there are certain drawbacks in the current system. Let us consider them in detail. Having analyzed different types of taxes, we can conclude that in its essence Bulgaria's tax policy has a destructive impact on the development of the state. The disadvantages of the current system are:

- Indirect taxes are levied on the principle of self-taxation, due to which the payer must independently regulate their individual tax capacity; such taxes are assigned to individuals regardless of their income or capital;

- Indirect taxes become burdensome for social groups with low income since they are mainly fiscal;

- These taxes limit the amount of profit, as it is not always possible to increase the price in proportion to the amount of indirect tax, especially when tax rates increase.

Having analyzed the destructive nature of Bulgaria's state development, we propose the following promising reforms, which will contribute to the improvement of the tax system.

- Bulgaria should develop a new radically changed concept of the tax policy;

- Considering the dominance of indirect taxes, it is necessary to reduce the tax burden on the payers of this type of taxes by providing them with various kinds of incentives and preferences;

- It is necessary to stimulate the development of the manufacturing sector of the economy, since it is the basis of the revenue side of the budget in any modern democratic state nowadays in the age of the increasing market turnover and relations.

5.SUMMARY

Having analyzed certain types of taxes that reveal the specifics of taxation in Bulgaria, the following can be concluded: currently, in order to overcome socio-economic crisis, the country should be very careful when making decisions about the tax policy as it is connected with some problems that must be mentioned.

First, the country should develop and systematize its tax legislation. Second, to increase the competitiveness of the republic among other EU member states, the country should clearly distinguish different types of taxes for its residents and non-residents, giving them a certain status to stimulate the development of the tax system. A certain status means a system of privileges and incentives for the development of economic relations, beneficial not only to foreign organizations, but to the tax system of the Republic of Bulgaria.

Third, it is necessary to develop a system of direct taxes, since their role in the internal taxation is not high, which has a negative impact on the entire tax system of the republic. Fourth, to deal with the destructive trend in the state development, Bulgaria should move from theoretical concepts to practical actions that can increase competitiveness and economic stability both within the country itself and in the international arena.

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