REPUBLIC OF BULGARIA
MINISTRY OF FINANCE

Tax Expenditure Report

2013

Tax Policy Directorate

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INTRODUCTION

The main goal in tax policy is to set up the scope of taxation in such a way as to ensure high efficiency and transparency of the tax system. Tax system efficiency refers to ensuring that government fiscal needs are provided for, while maintaining the highest possible economic growth and providing for an adequate standard of living for the public.

Such a compromise between fiscal, economic and social goals is achieved by distinguishing the object of taxation (consumption, income or property) and designing the taxes themselves, including their respective taxable base, tax rates and tax incentives. Such solutions enable higher flexibility in terms of taxation scope and inducing taxpayer behaviours in line with government expectations. On the one hand, those solutions provide incentives for certain specific taxpayer groups, while on the other hand depriving the government of some of its potential tax revenue, or, to put it differently, the government foregoes a portion of its tax revenue in order to achieve a certain economic or social goal.

The Bulgarian tax system provides for a number of tax incentives aimed at inducing taxpayer behaviours enhancing the development of certain regions, selected economic sectors and specific types of activity, or a change in the progressive features of the tax system. From a legal point of view, tax incentives can take various forms: low tax rates for profit tax and dividend tax, reduced tax rates, tax holidays, investment tax credits, accelerated tax depreciation, tax loss carry forward, etc. The common feature shared by the various forms of tax incentives is a reduction in tax liabilities and hence a reduction in potential tax revenues in the budget.

Any loss of tax revenue resulting from granting tax incentives is considered tax expenditure.

Tax expenditures are de facto substitutes for budget expenditures, and under certain conditions they can be an alternative to direct transfers from the central government or municipal budget.

Unlike budget expenditures, which are subject to in-depth analysis, monitoring and control, tax expenditures often remain outside the scope of such supervision. One of the main reasons is that budget expenditures are usually dealt with in a single piece of legislation, while tax expenditures tend to be scattered across a number of tax legislation acts, and are often less than explicit, making them hard to analyse and evaluate.

Such a situation is detrimental to the transparency of a country's financial governance and jeopardizes the proper allocation of public funds. That is why measuring tax expenditures is key to national fiscal policy-making. On the one hand, measuring tax expenditures makes it possible to distribute and redistribute public funds; while on the other hand, it serves as a point of reference in measuring the efficiency of each tax expenditure item and the tax system as a whole.

I. TAX EXPENDITURE REPORT – ESSENCE

Tax expenditure reporting has become a long-established practice in most European Union Member States and in member countries of the Organisation for Economic Co-operation and Development.

Annual Tax Expenditure Reports are prepared and published in order to provide transparency concerning provisions regulating tax incentives.

In a number of European Union Member States the issuance of Tax Expenditure Reports is regulated by law, and hence those Reports have a direct link to the central government budget and are included in the budget process.

A Tax Expenditure Report is issued annually but there are some exceptions as well, with some countries reporting their tax expenditures once every two or three years.

II. WHY IT IS NECESSARY TO REPORT TAX EXPENDITURES IN BULGARIA

In Bulgaria, this is the fourth time a Tax Expenditure Report has been issued. The first Tax Expenditure Report covers a three-year period (2007-2009). The second Tax Expenditure Report covers a two-year period (2010-2011). The third Tax Expenditure Report refers to 2012.

Bulgaria's national legislation provides the requirement to report tax expenditure pursuant to the provisions of Article 16, paragraph 4 of the Public Finance Law, and this report aims, on the one hand, to increase transparency in public finance, and on the other hand, to raise public awareness of the tax preference system and the size of tax incentives.

This Tax Expenditure Report covers 2013.

The report includes tax expenditures by type of tax measure (incentives) related to value added tax, excise duties, corporate income taxes and personal income taxes.

Tax expenditures presented in this Report have been estimated on the basis of reporting data stated in tax returns and customs declarations provided by the National Revenue Agency and the Customs Agency, and on the basis of statistics provided by the Bulgarian National Bank and the National Statistical Institute.

III. TAX EXPENDITURE REPORTING

Tax expenditure reporting covers the following main stages:

- Making a list of the existing tax incentives under the Value Added Tax Law, the Excise Duty and Tax Warehouses Law, the Corporate Income Tax Law and the Personal Income Tax Law for 2013;
- Defining tax expenditure;
- Defining benchmark taxes by type of tax;

- Identifying which of the tax incentives are tax expenditure and which are part of the benchmark tax;
- Making a list of the 2013 tax expenditures;
- Selecting methods of measuring tax expenditures;
- Analysing the available information and the sources of information measuring tax expenditures;
- Measuring Tax Expenditures;
- Recommendations for improvements in tax expenditure reporting.

IV. DEFINING TAX EXPENDITURE

From a legal point of view, tax incentives can take various forms: low tax rates for profit tax and dividend tax, reduced tax rates, tax holidays, investment tax credits, accelerated tax depreciation, tax loss carry forward, etc.

The term 'tax incentive' generally refers to a provision in tax legislation resulting in the reduction of the taxable base or the amount of the tax payable. A key feature shared by all forms of tax incentive is that tax liabilities are thus reduced, and hence they all lead to a reduction in potential tax revenues for the budget. Any loss of tax revenue resulting from granting tax incentives is considered tax expenditure.

Although there is a very close link between tax incentives and tax expenditures, the definition of the term 'tax incentive' is not sufficiently exhaustive to enable the identification of tax expenditures.

The identification of tax expenditures is a complex process, yet it is a prerequisite for measuring their value. It should be noted that not all tax treatments which represent measures granting tax incentives constitute tax expenditures proper. Some tax measures have been adopted in order to rationalise the tax system or to reduce tax administration costs, or they ensue from international obligations or obligations relating to European Union membership.

An analysis of other countries' Tax Expenditure Reports and the research of a number of publications by international organisations points to the conclusion that there is no single or generally accepted definition of tax expenditure. On the one hand, this is due to the substantial diversity among the various national tax systems, and on the other hand, to their diverging approaches to the function of tax expenditures.

A considerable number of the countries which issue regular Tax Expenditure Reports have adopted the OECD (Organisation for Economic Co-operation and Development) definition of tax expenditure. According to OECD, "Tax expenditure is a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax (i.e. the standard tax system), rather than by a direct expenditure".

For the purposes of the first Tax Expenditure Report, the authors have adopted the definition of tax expenditure of the Organisation for Economic Co-operation and Development. It recommends adopting a national definition of “tax expenditure” for the purposes of analysing and measuring tax expenditures in Bulgaria.

This recommendation has been reflected in the Public Finance Law effective as from 1 January 2014 by introducing the definition of "tax expenditure".

Within the meaning of §1, item 9 of the Additional Provisions of the Public Finance Law, "tax expenditure" means indirect expense made through the tax system by virtue of a legislative provision which leads to reducing or deferring budget revenue in order to achieve a specific economic or social objective".

For the purposes of making this analysis, the authors have adopted a broader definition of tax expenditure than the one provided for in the Public Finance Law.

Defining tax expenditure

Tax expenditure is an indirect expenditure made through the tax system to promote economic or social goals by virtue of provisions of tax law or regulation that reduce or postpone revenue for a certain category of taxable persons relative to a benchmark tax for the respective tax.

V. WHAT IS A BENCHMARK TAX

Defining a benchmark tax is crucial for determining whether a given tax provision constitutes a tax expenditure or it is an inherent feature of the tax system.

Global practice indicates that there is no single generally accepted model for benchmarking taxes due to the diversity of tax systems in the various countries. Each country defines its own benchmark taxes for the purposes of its own research and analysis.

VI. DEFINING BULGARIAN BENCHMARK TAXES

In Bulgaria, there is no universal definition of benchmark tax.

It should be pointed out that it is very difficult to define precisely benchmark taxes (the standard tax system), considering that each tax provision ought to be analysed very well in order to determine whether it is an inherent feature of a given tax or an incentive for a certain group of taxpayers, activities, economic sectors, etc.

To define a benchmark tax, it is necessary to indicate the most important principles of taxation, and identify those elements of the tax system which, in legal terms, may be a measure granting tax incentives, but in practice are part of the benchmark tax and should not be considered tax expenditure items. The general principles of a tax system are universality, comprehensiveness and justice of taxation. Other elements which should be recognised as part of the benchmark are the standard tax rates (the respective rates of value added tax, corporate income tax and personal income tax, etc.), the tax depreciation system, the possibility to reduce the annual taxable base (e.g. by deducting the obligatory social security and health insurance contributions), and the principles set up in the EU law, which are binding for all Member States.

It is not possible to define a single benchmark applicable to all taxes. The above principles can be applicable to each tax, but the characteristics of individual taxes require a definition of a benchmark for each type of tax. In value added tax and excise duties, which are harmonised at the EU level and the structure of which ensues from Community Law, there is very little leeway left for Member States in shaping their final design.

For the purposes of this report, in order to identify and estimate tax expenditures, the authors have defined benchmarks in terms of two categories of taxes: taxes on profits and income, and taxes on consumption.

6.1. Benchmark Tax in Profit and Income Taxation

The benchmark in profit and income taxation will be based on the following main principles:

- Universality of taxation: profits and income of legal persons and individuals are subject to taxation, regardless of their economic activity or their region of operation;
- Completeness of taxation: any profit/income is subject to taxation, regardless of their source, the category of payer, or the purpose for which such profit/income is intended;
- Individual taxation: the tax is levied on each legal person or individual which/who receives the proceeds or income;
- Annual assessment of the tax payable;
- Standard tax rates for taxes on profits or income;
- Tax depreciation system.

Tax provisions which correspond to the above principles ought to be considered elements of the benchmark tax and a point of reference in identifying tax expenditures. The benchmark tax will also include all provisions related to avoiding double taxation, i.e. tax exemption or applying the tax exemption methods regulated in bilateral double taxation agreements to which the Republic of Bulgaria is a party signatory.

6.2. Benchmark Tax in Terms of Consumption Taxation – Value Added Tax and Excise Duties

In terms of VAT and excise duties, the benchmark tax will follow the principles which are binding for all EU Member States and are enshrined in EU legislation.

Mandatory exemptions from taxation according to European legislation are a benchmark. All possible tax exemption options which are not binding for Member States and are a matter of national regulation ought to be considered a deviation from the benchmark tax, i.e. tax expenditure items. The same refers to tax rates. The benchmark tax involves a standard (base) rate. Reduced tax rates (for value added tax and excise duties) ought to be treated as tax expenditure items. Any legal provision which narrows the scope of taxation due to administrative or control considerations – for example, exemption from excise duty for alcoholic beverages produced by individuals for their own consumption and not intended for sale, should be considered a benchmark, and not a tax expenditure item.

VII. METHODS OF MEASURING TAX EXPENDITURES

One prerequisite for the proper distribution of public funds is to determine their amount accurately beforehand. Unlike direct transfers (public budget expenditures), the amount of tax incentives is not known ex ante. The possibilities of establishment of their precise amount ex post (after the end of the financial year) are also limited, particularly in cases where there is no requirement for detailed reporting of tax expenditures in the tax returns.

That is why measuring tax expenditures requires estimations arrived at by applying a specific set of methods.

The most common method of measuring tax expenditures is the method of ceding revenue (revenue foregone), which involves estimation of amounts not paid into the budget as a result of the existence of a given tax expenditure item.

Other applicable methods include the method of receiving revenue (revenue gain) and the outlay equivalent method.

The revenue gain method is based on estimating amounts which would have been paid into the budget, had certain tax expenditures been eliminated from the tax system, but factoring in any changes in taxpayer behaviour resulting from eliminating such expenditures.

The outlay equivalent method consists in measuring cash outlays which would be required to finance a given goal outside the tax system (for example, cost of raising the amount of social assistance or subsidies for purchasing new technology).

For the purposes of this report, the method used is that of revenue foregone.

VIII. TAX EXPENDITURE ESTIMATES

Tax expenditures have been estimated for 2013.

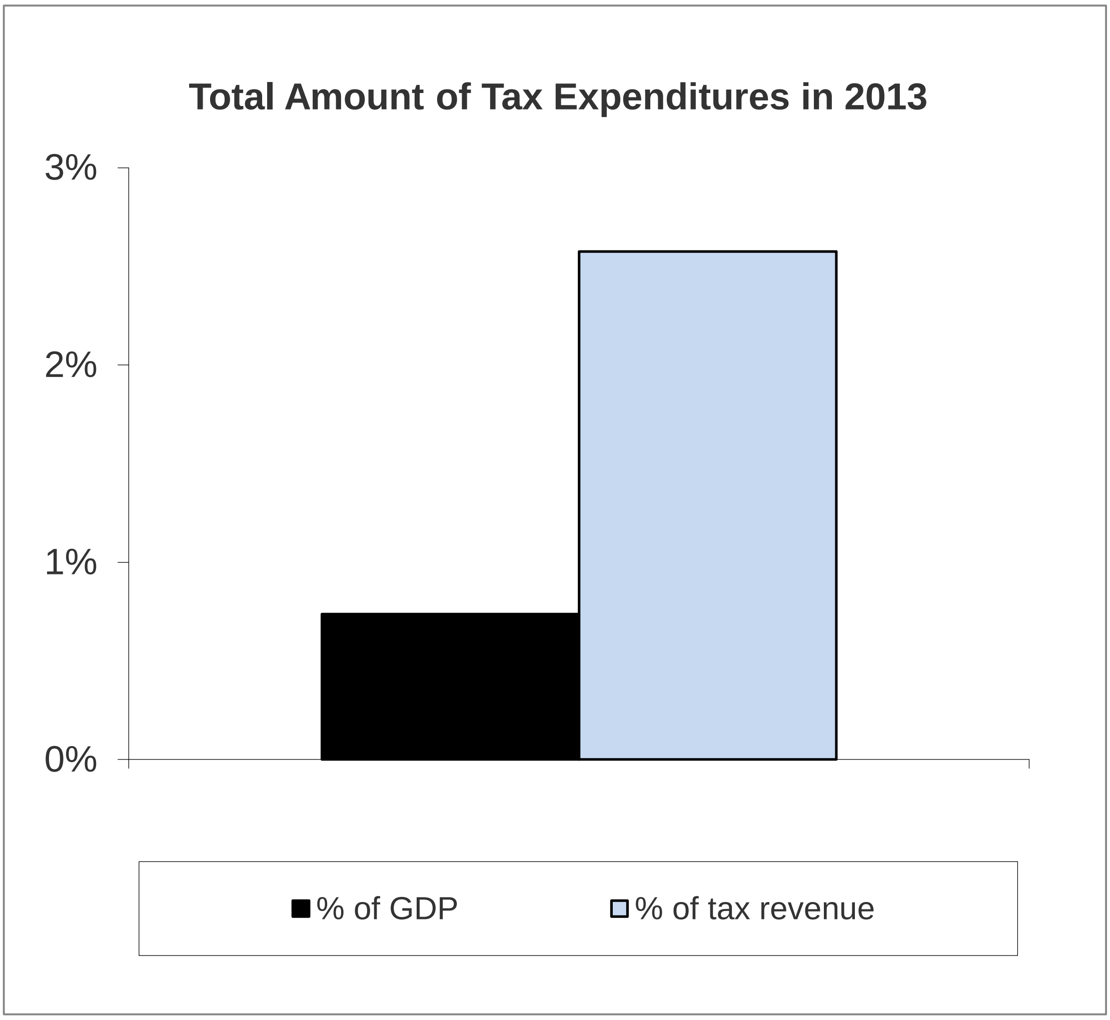
Tax expenditures presented in this Report have been estimated on the basis of reporting data stated in tax returns and customs declarations, and on the basis of statistics provided by the Bulgarian National Bank and the National Statistical Institute.

All tax expenditures have been estimated, and their measurement includes:

- Total amount of tax expenditures;
- Tax expenditure estimates by type of tax;
- Tax expenditure estimates by type of tax measure;
- Tax expenditure estimates by goal;
- Tax expenditure estimates by economic sector and subsector;
- Tax expenditure estimates by beneficiary.

8.1. Total Amount of Tax Expenditures

Year	Total Amount of Tax Expenditures (in BGN)	% of GDP	% of Tax Revenue
2013	576 074 446	**0.74%**	**2.58%**



2013

For 2013, tax expenditures increased, both in nominal terms and as a percentage of gross domestic product and of tax revenue.

The analysis indicates that the estimated loss of revenue resulting from tax expenditures is less than 1 % of GDP (0.74% of GDP for 2013).

To compare, that indicator ranges from 0.74% of GDP in Germany, 2% in the Netherlands, 4.9% in Poland, up to 12.79% in the United Kingdom. The wide range of values for the indicator is due, on the one hand, to the existing differences in the tax systems of the various countries, while on the other hand it has to do with the different approaches and methods used for estimation of tax expenditures[1].

In countries with a broad tax base and low tax rates for profit and income taxation such as Bulgaria, the number of tax expenditure items is low, up to 40. Conversely, in countries with a narrow tax base or high tax rates, the number of tax expenditure items is several times higher and can reach up to 380.

8.2. Tax expenditure Estimates by Type of Tax

Tax expenditures were estimated by type of tax: value added tax, excise duties, corporate income tax and personal income tax.

2013

For 2013, a total of 35 tax expenditure items were identified. On the basis of the information available, 25 tax expenditures were measured (accounting for 71% of all expenditure items identified). Tax expenditures not measured account for 29% of all expenditure items.

The largest relative share comes from tax expenditures associated with corporate taxes (46.9%), followed by tax expenditures associated with VAT (31.2%) and excise duties (16.9%).

Type of Tax	**Number of Tax Expenditure items**	**Number of Tax Expenditure Items Measured**	**Estimate** (in BGN)	**% of Tax Revenue**
VAT	2	1	179 754 320	0.80%
Excise duties	7	6	97 592 001	0.44%
Corporate income taxes	18	12	270 036 795	1.21%
Personal income taxes	8	6	28 691 330	0.13%
Total, all taxes	35	25	576 074 446	2.58%

2013

The analysis revealed that less that one fourth of tax expenditures have not been estimated. The absence of an estimate is due to the fact that tax returns do not contain the relevant data, or contain aggregated information which cannot be used to measure the respective tax expenditure item reliably.

[1] OECD data for 2010.

For example, the annual tax return filed under Article 92 of the Corporate Income Tax Act contains aggregated information concerning the tax deductible cost of depreciation/amortisation for all tax depreciable tangible and intangible assets. The information provided by means of the tax return is not sufficiently broken down to enable the estimation of tax expenditures under tax measures "Accelerated tax depreciation of up to 50 % for machines and equipment" and "Accelerated tax depreciation (100 % per annum) for assets generated as a result of R&D".

On the one hand, it is necessary to simplify administrative procedures, including the procedure of filling in and filing tax returns, in order to reduce the administrative burden and the cost of compliance for taxpayers. On the other hand, the unavailability of certain information concerning tax incentives under corporate and personal income taxation prevents the measuring of the actual size of tax expenditures and the production of a realistic Tax Expenditure Report.

Recommendation: Information filed through the annual tax returns should be carefully examined and the possible elimination of some items and their replacement by other items should be considered, with a view of striking an efficient balance in order to achieve the set goals.

8.3. Tax Expenditure Estimates by Type of Tax Measure

Tax expenditures have been estimated by type of tax measure for the following types of taxes: value added tax, excise duties, corporate and personal income taxation.

1. Tax Measures Associated with Value Added Tax

In tax expenditures associated with value added tax, the highest relative share is that of the tax expenditure under tax measure "Reduced tax rate for accommodation in hotels and other similar establishments".

Tax Measure Type	**% of Tax Revenue from VAT**	**Amount** (in BGN)
Special regime for charging VAT on imports and a 30-day deadline for VAT refunds	X	X
Reduced tax rate (9 %) for accommodation provided at hotels and other similar establishments	2.44%	179 754 320
Total	**2.44%**	**179 754 320**

2013

The analysis shows a 10% increase in tax expenditures associated with VAT compared to 2012. The following factors are identified as the main drivers for their growth:

1. The number of foreign tourists who visited Bulgaria in the period January – December 2013 increased by 5.5% compared to the same period of 2012;

2. The visits with holiday and vacation purposes grew by 6.3%;

3. The revenues from international tourism in the period January – December 2013 were

EUR 3 058,4 million, which is by 4,9 % more compared to the same period of 2012.

2. Tax Measures Associated with Excise Duties

Tax Measure Type	% of Tax Revenue from Excise Duties	Amount (in BGN)
Refund of excise duty paid on alcohol and alcoholic beverages when used for medical purposes		The tax expenditure has not been measured.
Refund of excise duty paid on electric power for licensed railway carriers and railway infrastructure managers	0.10%	4 059 887
Zero-rate excise duty on electric power for household consumption	0.56%	22 911 011
Zero-rate excise duty on sales of coal and coke to individuals	0.07%	2 897 941
Reduced excise rate on natural gas used as heating fuel and motor fuel	1.59%	64 502 960
Reduced excise rate on ethyl alcohol (rakiya) produced in specialised small distilleries, amounting to BGN 550 per 1 hectoliter of pure alcohol	0.02%	850 191
Reduced excise rate on beer produced by small independent breweries	0.06%	2 370 010
Total	**2.41%**	**97 592 001**

Total for 2013

The analysis shows an increase in tax expenditures associated with excise duties.

The largest increase is observed for two tax measures: “Reduced excise rate on beer produced by small independent breweries” and “Zero-rate excise duty on electric power for household consumption”.

For 2013, in tax expenditures associated with excise duties, the highest relative shares are those of tax expenditures associated with two tax measures:

- “Zero-rate excise duty on natural gas used as motor fuel and heating fuel” (66.09% - 2013);
- “Zero-rate excise duty on electric power for household consumption” (23.48% -2013).

3. Tax Measures Associated with Corporate Income Taxes

Tax Measure Type	**% of Tax Revenue from Corporate Taxes**	**Amount** (in BGN)
Tax exemption of equity transactions performed on a regulated market	1.68%	27 470 759
Tax exemption from corporate income tax for collective investment schemes, national investment funds and special purpose vehicles		The tax expenditure has not been measured.
Tax exemption from corporate income tax for the Bulgarian Red Cross	0.01%	166 400
Tax exemption from corporate income tax and income tax for institutions of higher education		The tax expenditure has not been measured.
Tax exemption from corporate income tax and income tax for the Bulgarian Academy of Sciences, the Academy of Agriculture, etc.		The tax expenditure has not been measured.
Remission of up to 100 per cent of the corporate income tax for undertakings engaging in manufacturing activities in municipalities with high unemployment rates	1.12%	18 301 990
Remission of up to 60 per cent of the corporate income tax for registered agricultural producers	1.90%	31 055 219
Remission of corporate income tax for undertakings employing people with disabilities	0.13%	2 149 197
Remission of 50 per cent of the corporate income tax for social security and health insurance funds	0.01%	144 641
Accelerated tax depreciation		The tax expenditure has not been measured.
Accelerated tax depreciation (100 % per annum) for assets generated as a result of R&D		The tax expenditure has not been measured.
Tax losses carry forward	9.83%	161 053 970
Tax deductible expense for donations	0.31%	5 089 290
Tax exemption of social benefit expenses for food vouchers	1.16%	19 029 947
Tax exemption of social benefit expenses for contributions and premiums for additional social security and life insurance	0.22%	3 603 569
Tax exemption of social benefit expenses for employee transport	0.11%	1 882 797
Tax deduction for hiring unemployed persons	0.01%	89 015

Remission of 50 per cent of the income tax for budget enterprises		The tax expenditure has not been measured.
Total	**16.49%**	**270 036 795**

Note: Tax measures under corporate taxes include "Tax losses carry forward" as a tax expenditure item. Tax loss carry forward is a tax incentive, but an in-depth analysis of the nature of that tax incentive indicates that it should not be included and measured as a tax expenditure item. For the purposes of the present analysis, that tax incentive has been measured as a tax expenditure item, due to its high value.

On an annual basis, the measure "Tax losses carry forward" registered an increase of 3.7% which can be explained with the respective deterioration by 9.1% of the balance of the general business climate indicator for the same period.

4. Tax Measures Associated with Personal Income Taxes

Tax Measure Type	**% of Tax Revenue from Personal Income Taxes**	**Amount** (in BGN)
Tax incentives for sole proprietors (incentives under CITA which can be used by sole proprietors)	0.14%	3 165 333
Tax exemption of certain types of personal income		A portion of this tax incentive is not a tax expenditure item. The tax expenditure has not been measured.
Tax exemption of certain types of income under employment contracts governed by the Labour Code		A portion of this tax incentive is not a tax expenditure item. The tax expenditure has not been measured.
Reducing the sum of annual tax bases by deducting any contributions for insured length of service upon retirement made during the year at the expense of the individual	0.001%	27 588
Tax deduction on donations	0.01%	210 623
Reducing the sum of annual tax bases (the monthly base, respectively, for the income under employment contracts) for persons with 50 per cent or more reduced work capability	0.87%	20 337 786

Reducing the sum of annual tax bases (the monthly base, respectively, for the income under employment contracts) by deducting any additional personal voluntary contributions made during the year/ month	0.13%	3 056 800
Tax deduction for young families for the interest payments made during the year under a mortgage loan intended for purchasing a house	0.08%	1 893 200
Total	1.23%	28 691 330

8.4. Tax expenditure estimates by goal

Tax expenditures have been estimated in relation to two main goals – an economic goal and a social goal.

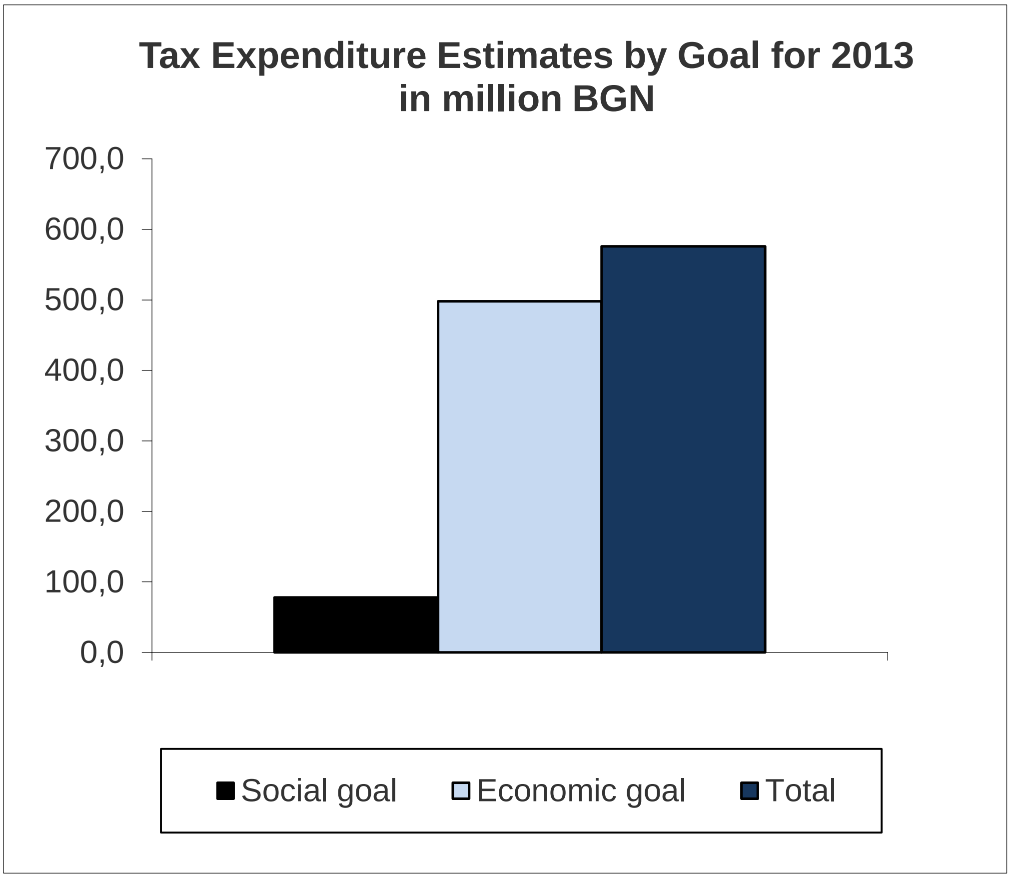
Tax expenditures with an economic goal refer to tax measures aimed at promoting foreign direct investment and innovation, increasing employment, developing certain regions and economic branches in the country.

Tax expenditures with a social goal refer to tax measures aimed at certain categories of individuals.

2013

For 2013 the relative share of tax expenditures with an economic goal was 86.42% and of the tax expenditures with a social goal – 13.58%, respectively.

Goal	**Amount** (in BGN)	**% of Tax Revenue**
Economic goal	497 865 435	2.23%
Social goal	78 209 011	0.35%
Total, goals	**576 074 446**	**2.58%**

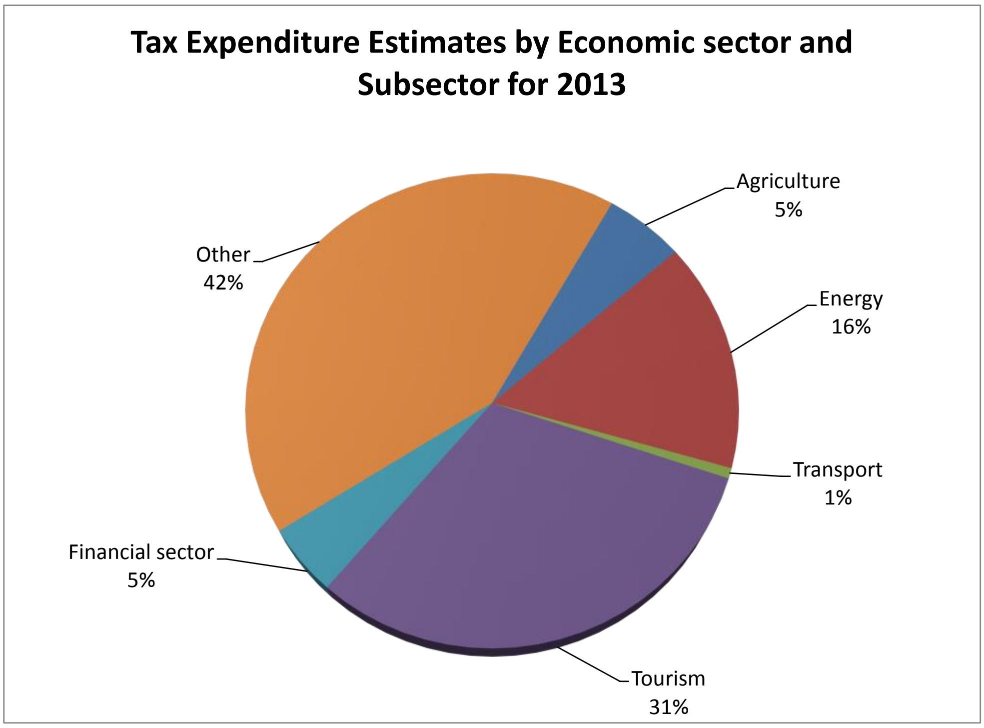


8.5. Tax expenditure estimates by economic sector and subsector

Tax expenditures have been estimated by economic sectors and subsectors.

2013

Economic sector	Amount (in BGN)	% of Tax Revenue
Agriculture	31 055 219	0.14%
Energy	90 311 912	0.40%
Transport	4 059 887	0.02%
Tourism	179 754 320	0.80%
Financial sector	27 615 400	0.12%
Other	243 277 708	1.09%
Total, sectors	**576 074 446**	**2.58%**



Note: For the purposes of estimating tax expenditures, the category of „Other" includes several economic sectors (food and beverages, pharmaceuticals, etc.) and tax expenditures associated with general tax measures (for example, „Tax losses carry forward") or tax measures for promoting regional development and employment which, on the one hand, cover a considerable number of sectors and, on the other hand, are hard to differentiate by economic sector (for example, „Remission of up to 100 per cent of the corporate income tax for undertakings engaging in manufacturing activities in municipalities with high unemployment rates").

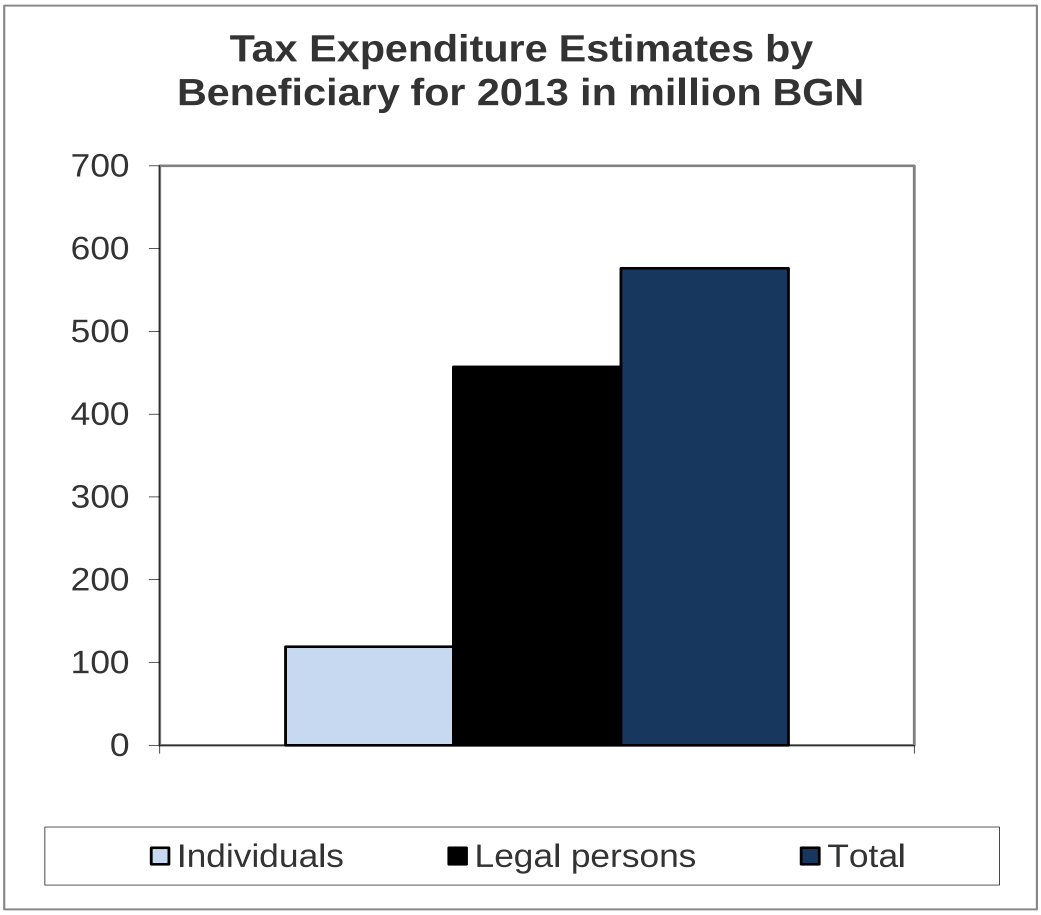
8.6. Tax Expenditure Estimates by Beneficiary

Tax expenditures have been estimated for two main categories of beneficiaries: legal persons and individuals.

2013

For 2013 the relative share of tax expenditures where the beneficiaries are legal persons was 79.3%, and that of tax expenditures where the beneficiaries are individuals was 20.7%.

Beneficiary	**Amount** (in BGN)	**% of Tax Revenue**
Legal persons	457 071 204	2.04%
Individuals	119 003 242	0.53%
Total, beneficiaries	576 074 446	2.58%



Note: For the purposes of estimating tax expenditures, the "Legal persons" category includes resident legal persons, including non-personified entities and permanent establishments of non-resident persons in Bulgaria.

IX. POSSIBILITIES FOR IMPROVEMENTS IN TAX EXPENDITURE REPORTING

- Regular review and measuring of tax expenditures, issuing a Tax Expenditure Report annually;
- Publishing of the Tax Expenditure Report on the website of the Ministry of Finance in order to increase transparency in public finance and raise public awareness;
- Development of methods for preparation of the tax expenditure report and the tax expenditure estimates;
- Analysis of the information requirements and information sources for the purposes of tax expenditure measurement;
- Reducing the share of unmeasured tax expenditures;
- Assessing the tax expenditure efficiency;
- Conducting a cost-benefit analysis before introducing any future tax expenditures;

- Developing short- and mid-term forecasts for tax expenditures, starting from 01.01.2014.

CONCLUSION

The Bulgarian tax system provides a small number of tax expenditure items. Generally, tax expenditures are aimed at stimulating economic development and growth by promoting investment, innovation and employment.

In the period under review, there is an overall increase in tax expenditures. The increase is largely due to the higher amount of declared tax profits and corporate income taxes, leading to higher tax incentives used under the corporate taxes, which directly affects the size of tax expenditures.

The Report shows that a considerable part of tax expenditures have not been measured, due to the unavailability of information about tax incentives associated with corporate and personal income taxation. In that regard, it is necessary to undertake appropriate action to reduce the share of unmeasured expenditure and ensure more realistic tax expenditure reporting in the future.

Last but not least, it should be noted that part of the tax expenditures introduced several years ago have now lost their ability to influence taxpayers and are inefficient, and at this point their only effect is to reduce budget revenue, without adding any real value for the economy and the society. Such inefficient tax expenditures should be subject to an in-depth review to explore the question of how justified it is to retain them in their present from.

For additional information, please contact:

Tax Policy Directorate

Ministry of Finance