REPUBLIC OF BULGARIA
MINISTRY OF FINANCE

Tax Expenditure Report

2017

Tax Policy Directorate

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INTRODUCTION

Tax policy underlies the economic and fiscal policy of the state and is an important instrument in the regulation of the macroeconomic proportions. Besides being a key component in the fiscal policy, tax policy should also be considered as an important lever for stimulating foreign direct investment, economic growth and employment.

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 eighth 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 for 2012 introduces a preparation of annual reports on tax expenditures. The last one refers to 2016.

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 a quantitative assessment of the different types of tax incentives and tax reliefs for 2017.

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 2017;
- 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 2017 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 2017.

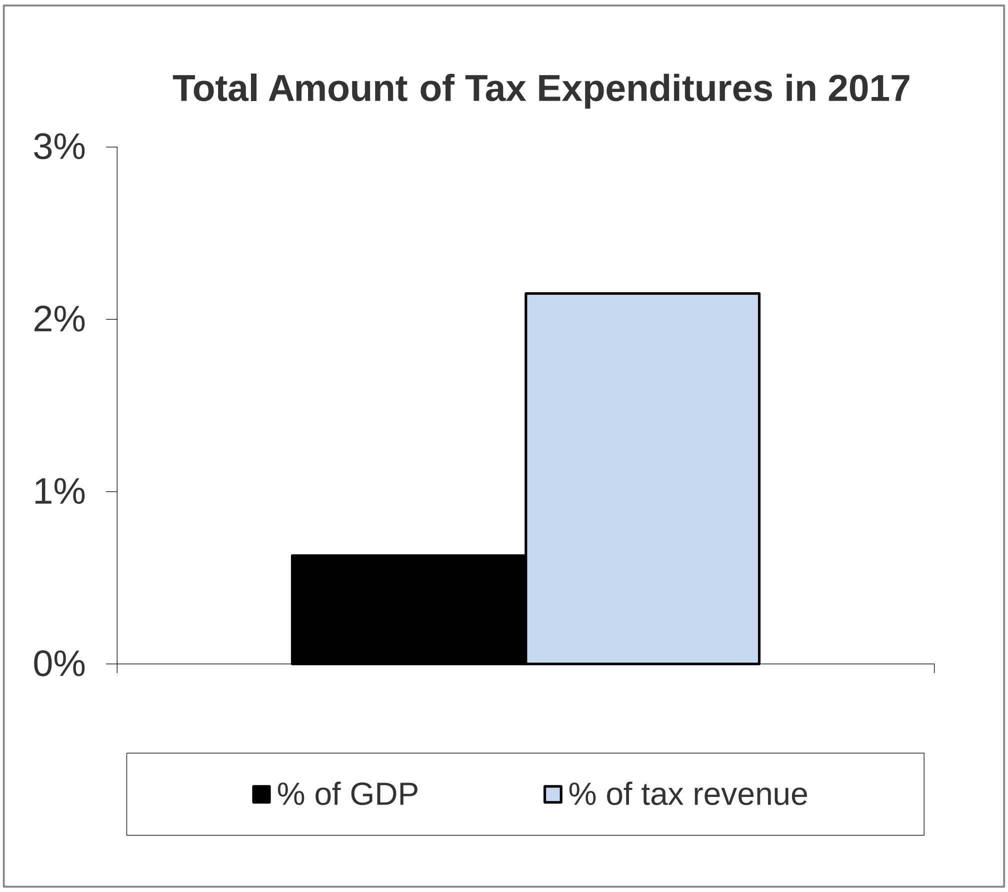
Tax expenditures presented in this Report have been estimated on the basis of reporting data stated in tax returns and customs declarations, and on the basis of statistics provided by the Bulgarian National Bank and the National Statistical Institute.

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
2017	636 205 181	0.63%	2.15%



2017

As to tax expenditures, the number of the measures remains the same in 2017, while in absolute terms a slow decrease of 0.9% is observed for 2016 as against the previous year, which is mainly due to the group of Tax Measures Associated with Corporate Income Taxes to the amount of BGN 51.3 million (16.2%).

The analysis indicates that the estimated loss of revenue resulting from tax expenditures is less than 1% of GDP (0.63% of GDP for 2017).

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.

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.

2017

For 2017, a total of 40 tax expenditure items were identified. On the basis of the information available, 30 tax expenditures were measured (accounting for 75% of all expenditure items identified). Tax expenditures not measured account for 25% of all expenditure items.

The largest relative share comes from tax expenditures associated with corporate taxes (41.9%), followed by tax expenditures associated with excise duties (26.8%) and VAT (20.1%).

Type of Tax	Number of Tax Expenditure items	Number of Tax Expenditure Items Measured	Estimate (in BGN)	% of Tax Revenue
VAT	2	1	127 588 252	0.43%
Excise duties	7	7	170 442 905	0.58%
Corporate income taxes	19	10	266 417 979	0.90%
Personal income taxes	12	12	71 756 045	0.24%
Total, all taxes	40	30	636 205 181	2.15%

2017

The analysis of the sources of information used to make a tax expenditure measurement aimed at reducing the share of unmeasured tax expenditures indicates that only a quarter of tax expenditures can not to be 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.

In this regard, due to unavailable detailed and comprehensive information reflecting the exact impact of some of the tax expenditures on the state budget, the quantitative assessment of their effects in the annual reports is not possible. This is reflected in Amount column as „The tax expenditure has not been measured“.

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	**Year of introduction**	**% of Tax Revenue from VAT**	**Amount** (in BGN)
Special regime for charging VAT on imports and a 30-day deadline for VAT refunds	2007	X	The tax expenditure has not been measured.
Reduced tax rate (9 %) for accommodation provided at hotels and other similar establishments[1]	2007[2]	1.37%	127 588 252
Total		1.37%	127 588 252

2017

Compared to the previous year, the „Reduced tax rate (9%) for accommodation provided at hotels and other similar establishments" measure reports a growth by BGN 10.5 million (9.0%) for 2017. The factors influencing the amount of tax expenditure for the reference period in terms of activities related to accommodation in the country are the growth on an annual basis in revenues from accommodation in the country for 2017 (9.1%) and in the total expenditure from tourist trips of persons aged 15 years and over for 2017 (46.9%)[3]. The Ministry of Tourism reports 9.3% growth of the revenues from international tourism in Bulgaria for 2017 as against the

[1] For 2014 there is a change in the methodology for calculating the effect of the reduced rate for accommodation provided in hotels and similar establishments. Calculations are based on the NSI data.

[2] The tax measure was introduced in 2007 at a reduced tax rate of 7 % and which was changed to 9% as from April 2011.

[3] Source data: NSI.

previous year[4].

2. Tax Measures Associated with Excise Duties

Tax Measure Type	**Year of introduction**	**% of Tax Revenue from Excise Duties**	**Amount** (in BGN)
Refund of excise duty paid on alcohol and alcoholic beverages when used for medical purposes	2006	0.004%	198 780
Zero-rate excise duty on electric power for household consumption	2007	0.46%	23 162 167
Reduced excise rate on natural gas used as motor fuel and zero-rate excise duty on natural gas used for household purposes	2006[5]	0.98%	48 625 477
Reduced excise rate on ethyl alcohol (rakiya) produced in specialised small distilleries, amounting to BGN 550 per 1 hectoliter of pure alcohol	2006	0.02%	982 705
Reduced excise rate on beer produced by small independent breweries	2009	0.05%	2 602 417
Remittance of excise duty on purchased gas oil used in primary agricultural production	2006[6]	1.69%	83 991 849
Zero-rate excise duty on sales of coal and coke to individuals	2007	0.22%	10 879 510
Total		3.42%	170 442 905

2017

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[4] http://www.tourism.government.bg/bg/kategorii/novini/93-procenta-e-rustut-na-prihodite-ot-mezhdunaroden-turizum-prez-2017-g-u-nas

[5] The „Reduced excise rate on natural gas used as heating fuel for industrial purposes“ tax measure was introduced in 2006 at a tax rate of BGN 0 per 1 gigajoule. In April 2012 it was changed to BGN 0.85 per 1 gigajoule.

[6] Over the years, State Aid has been provided and reported in different forms. In the period from 2010 to 2013 the measure was canceled, after that recovered as a special procedure for deducting excise duty in return for fuel vouchers in the form of state aid for the agricultural sector until June 2016 when it was canceled. The measure continues being implemented during the period under consideration as a „Special procedure for remittance of excise duty on purchased gas oil used in primary agricultural production“ measure regulated in Article 47a of the Agricultural Producers Support Act and Article 45e of the Excise Duties and Tax Warehouses Act.

The increase in the total amount of tax expenditures associated with excise duties is due to the “Remittance of excise duty on purchased gas oil used in primary agricultural production” tax measure which replaces the „Refund of excise duty for diesel fuel used by the agricultural producers“ tax incentive existing in the previous year. The maximum share of the amount refundable to agricultural producers from the excise duty for used gas oil of BGN 84 million[7] is provided for by the 2017 State Budget of the Republic of Bulgaria and is unchanged compared to the previous 2016 year.

For 2017, tax expenditures associated with two tax measures have the highest relative share in tax expenditures associated with excise duties:

- “Remittance of excise duty on purchased gas oil used in primary agricultural production” – 49.28%% of the total amount of tax expenditures associated with excise duties for 2017;
- “Reduced excise rate on natural gas used as motor fuel and zero-rate excise duty on natural gas used for household purposes” – 28.53% of the total amount of tax expenditures associated with excise duties for 2017.

3. Tax Measures Associated with Corporate Income Taxes

Tax Measure Type	**Year of introduction**	**% of Tax Revenue from Corporate Taxes**	**Amount** (in BGN)
Tax rate of withholding tax on Income from dividends and shares in liquidation surplus - 5 %	2007	0.52%	12 798 774
Tax exemption of any income from disposition of financial instruments admitted to trading on a Regulated Market	2007	X	The tax expenditure has not been measured.
Tax exemption from corporate income tax for collective investment schemes, national investment funds and special purpose vehicles	2007	X	The tax expenditure has not been measured.
Tax exemption from corporate income tax for the Bulgarian Red Cross	2007	X	The tax expenditure has not been measured.
Tax exemption from corporate income tax and income tax for institutions of higher education	2007	X	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	2007	X	The tax expenditure has not been measured.

[7] Art. 58, 2017 State Budget of the Republic of Bulgaria Act - http://dv.parliament.bg/DVWeb/showMaterialDV.jsp?idMat=109996

Agriculture, etc.			
Remission of up to 100 per cent of the corporate income tax for undertakings engaging in manufacturing activities in municipalities with high unemployment rates	2007	0.57%	13 851 335
incl. tax relief constituting de minimis aid		0.12%	2 830 800
incl. in cases of tax relief constituting regional aid		0.45%	11 020 536
Remission of up to 60 per cent of the corporate income tax for registered agricultural producers	2007	1.13%	27 691 708
Remission of corporate income tax for undertakings employing people with disabilities	2007	0.04%	883 087
Remission of 50 per cent of the corporate income tax for social security and health insurance funds	2007	0.001%	29 741
Accelerated tax depreciation (100% per annum) for assets generated as a result of R&D	2007	X	The tax expenditure has not been measured.
Tax losses carry forward	2007	7.41 %	180 934 107
Tax deductible expense for donations	2007	0.12%	2 935 338
Tax deduction for hiring unemployed persons	2007	X	The tax expenditure has not been measured.
Remission of 50 per cent of the income tax for budget enterprises	2007	0.03%	728 976
Tax exemption of fringe benefit expenses on food vouchers	2007	1.07%	26 222 072
Accelerated tax depreciation	2007	X	The tax expenditure has not been measured.
Tax-recognized cost upon grant of scholarships	2007	0.01%	342 841
Total[8]		10.91 %	266 417 979

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

[8] The „Tax deduction when submitting electronically an annual tax return and annual activity report and corporation tax paid until 31 March of the following year, but not more than BGN 1 000“ measure has been abolished since 1.01.2018 and pursuant to the provisions of § 48 of CITA, the tax returns for which the obligation to be submitted arises after the 31st day of December 2017 shall be submitted only by electronic means.

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.

For the first time in the last five years the "Tax losses carry forward" measure has registered a decrease by BGN 55.6 million (23.5%) on an annual basis, which is due to an increase in the declared tax profit for the last years, as well as to maintaining the downward trend in the declared tax loss..

4. Tax Measures Associated with Personal Income Taxes

Tax Measure Type	**Year of introduction**	**% of Tax Revenue from Personal Income Taxes**	**Amount** (in BGN)
Tax relief for persons with reduced working capacity	2007	0.80%	26 547 904
Tax relief for personal contributions for contributory service upon retirement	2007	0.005%	159 064
Tax relief for personal voluntary social and commercial insurance contributions	2007	0.13%	4 217 439
Tax relief for donations	2007	0.01%	289 860
Tax relief for young married couples	2009	0.04%	1 176 009
Tax relief for children[9]	2005	0.04%	1 194 133
Tax relief for children with disabilities	2015	0.02%	640 523
Tax incentives for sole proprietors (incentives under CITL which can be used by sole proprietors)	2007	0.14%	4 763 537
Tax relief when applying the "Exemption with progression" method of avoiding double taxation	In force since the year of entry into force of the respective DTAC related to the method applicable - "Exemption with progression"	0.40%	13 325 889
Tax deduction for electronic submission of annual tax returns by 31 January of the following year: the persons use a 5 % rebate of the	2007[10]	0.04%	1 281 338

[9] Tax measure was introduced in 2005, was in force until end- 2008, then was canceled and was resumed again in 2015.

balance of tax due under the annual tax return, but not more than BGN 500, provided that they have no public obligations subject to coercive enforcement at the time of submission of the return, and the tax due is paid until 31 January of the current year			
Remission of the annual income tax up to 60 per cent for sole proprietors registered as agricultural producers	2010	0.54%	18 012 663
Tax relief for non-cash payments effected	2017	0.004%	147 685
Total		2.17%	71 756 045

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.

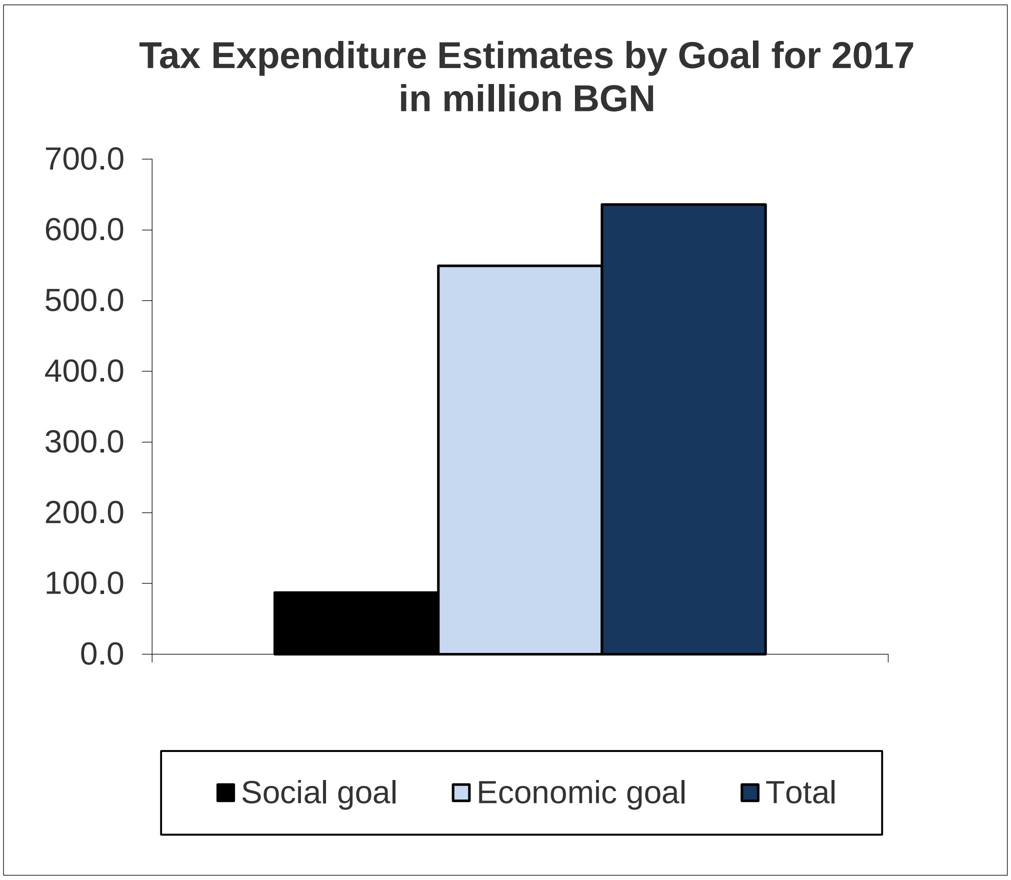
Tax expenditures with a social goal refer to tax measures aimed at certain categories of individuals.

2017

For 2017 the relative share of tax expenditures with an economic goal was 86.3% and of the tax expenditures with a social goal – 13.7%, respectively.

Goal	**Amount** (in BGN)	**% of Tax Revenue**
Economic goal	549 119 049	1.86%
Social goal	87 086 132	0.29%
Total	636 205 181	2.15%

[10] The parameters of the measure have been changed for 2017, as the deadline for submitting of tax returns has been shortened and the maximum amount of the rebate has been reduced.

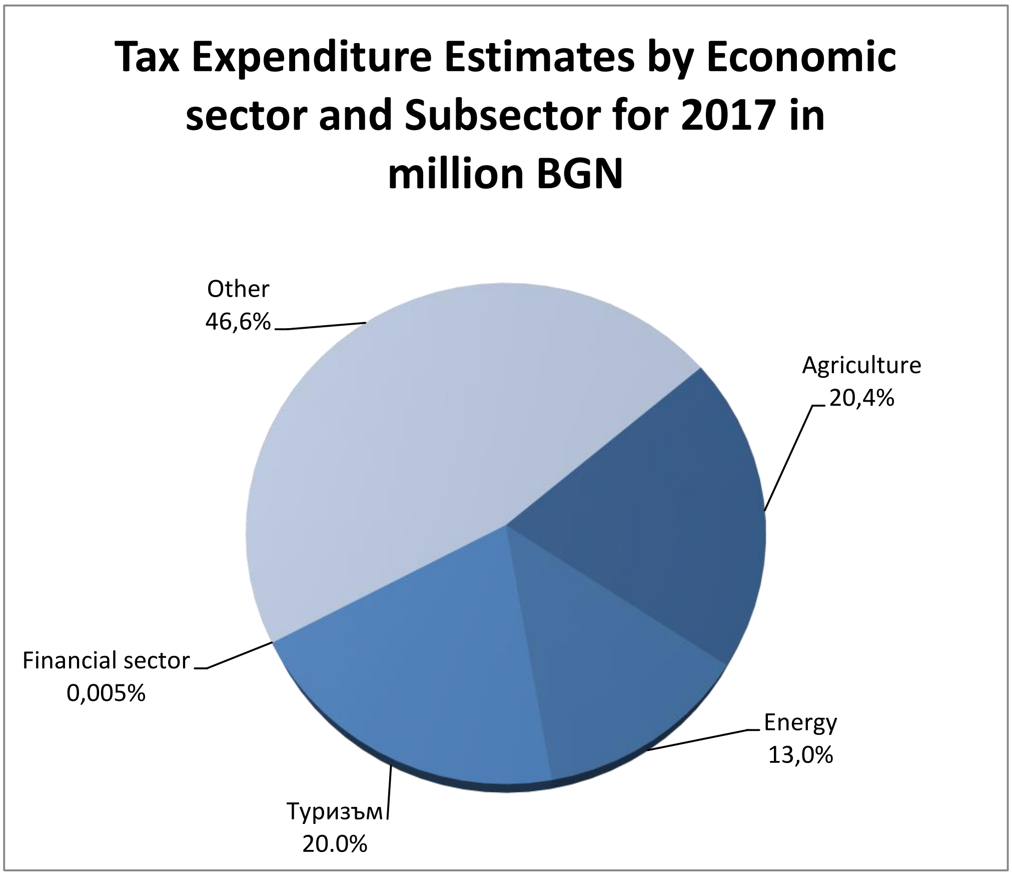


8.5. Tax Expenditure Estimates by Economic Sector and Subsector

Tax expenditures have been estimated by economic sectors and subsectors.

2017

Economic sector	**Amount** (in BGN)	**% of Tax Revenue**
Agriculture	129 696 219	0.44%
Energy	82 667 155	0.28%
Tourism	127 588 252	0.43%
Financial sector	29 741	0.0001%
Other	296 223 814	1.00%
Total	636 205 181	2.15%



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").

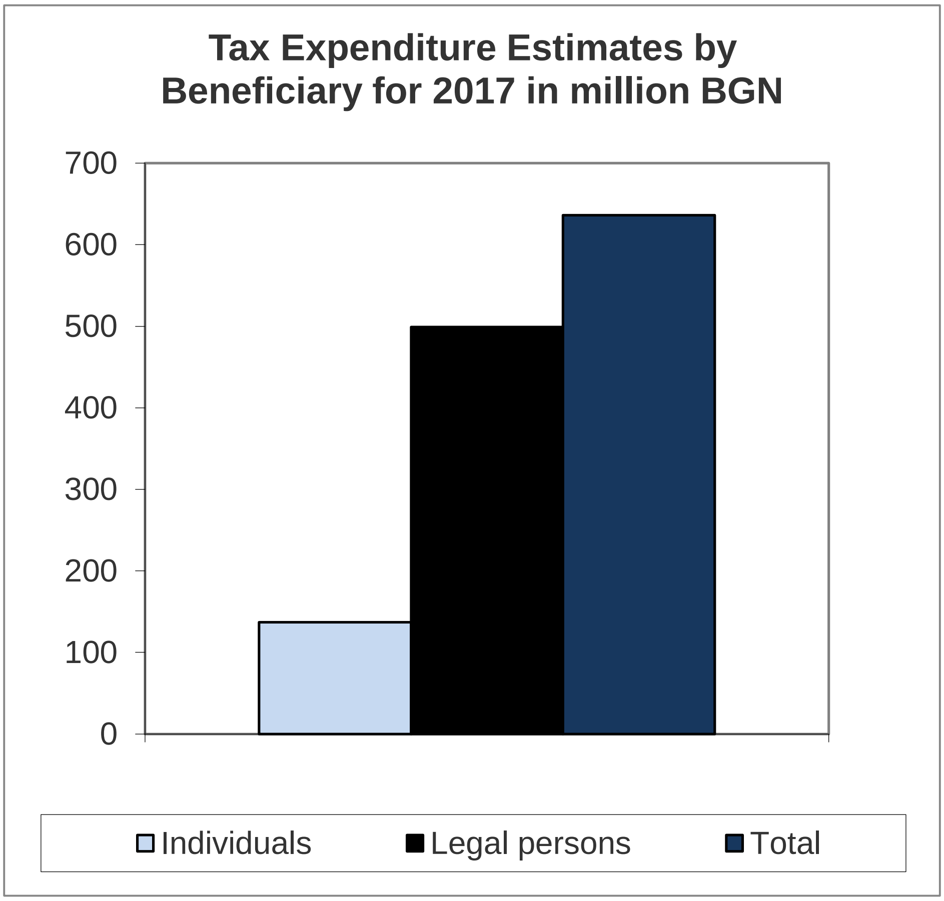
8.6. Tax Expenditure Estimates by Beneficiary

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

2017

For 2016 the relative share of tax expenditures where the beneficiaries are legal persons was 78.5%, and that of tax expenditures where the beneficiaries are individuals was 21.5%.

Beneficiary	**Amount** (in BGN)	**% of Tax Revenue**
Legal persons	499 240 351	1.69%
Individuals	136 964 830	0.46%
Total	636 205 181	2.15%



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;
- Analysis of the information requirements and information sources for the purposes of tax expenditure measurement;
- Reducing the share of unmeasured tax expenditures;

- Update of the Tax Expenditure Report for previous years, where possible, to assess the 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 a decrease in the number of unmeasured tax expenditures, as well as the influence of ongoing macroeconomic processes in the economy on the declared tax obligations, leading to the use of a varied number and amount of tax incentives and directly affecting the size of tax expenditures.

The Report shows that a considerable part of tax expenditures related to corporate income tax incentives have not been measured, due to the unavailability of information about them. In that regard, appropriate actions continue to be taken to reduce the share of unmeasured expenditure, without increasing the administrative burden and the costs of taxpayers.

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 form. On the other hand, it should be considered that the trend towards the introduction of new measures and the reestablishment of old ones takes account of the consistent analysis of the implementation of various incentives in specific areas as a dynamic tool for achieving the priorities set.

For additional information, please contact:

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