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# **SPECIFIC VAT REGIMES IN THE EU - METHODICAL CASES AND SOLUTIONS**

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**Abstract:** The differences in tax systems of the member-states of the European Union as well as the specific VAT regimes require passing through varying degrees of approximation, including the complete unification of some of them in order to improve tax collection. Thus the legal framework of the tax system of the EU sets taxes common to every state and those which reflect national specificities and exist only by virtue of tradition or by the peculiarities of the economy of the country. They inherently have unique problems and differ from one another because the parties are free to choose a tax system that is considered to be the most effective for their conditions, provided that the general rules are observed.

**Key words:** taxation, VAT, specific regimes, tax legislation, EU.

**JEL:** F53,F55, H26.

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## **Introduction**

Over the years, the technique of indirect taxation, and particularly VAT has been continuously developing to become the major priority of economic policy of the state and the backbone of its financial structure. The existing differences in tax systems of the member-states of the European Union, and the specific regimes of indirect taxes require passing through varying degrees of approximation, harmonization and including, the complete unification of some of them. In this way, the legal framework of the EU tax system lays down taxes and tax regimes common for each member-state as well as those that reflect national specificities.

In this regard, the indirect tax legislation and in particular, VAT within the EU is defined as an **object** of study, and the **subject** of development are the specific regimes of VAT in the context of harmonization of tax policy.

**The main objective** of the paper is to present a summary of the characteristics and effects achieved by implementing some of the specific VAT regimes within the EU.

To achieve this objective, the following **research cases** are formulated:

- A study of some of the specific VAT regimes applied;
- A study of cooperation between the member-states of the EU with the implementation of specific VAT regimes;
- A study of the specific VAT regimes as part of a tax reform in order to improve the fiscal policy of the EU member-states.

In the course of the study, the compliance with indirect taxation, in particular VAT is used as a base, as well as the tax legislation within the EU and the development of European fiscal integration.

## **1. Specifics of the VAT within the EU**

The differences existing in the tax systems of the EU member-states require going through varying degrees of approximation, including the complete unification of some of them. Thus the legal framework of the tax system of the EU sets taxes common to every state and those which reflect national specificities and exist only by virtue of tradition or by the peculiarities of the economy of the country. They inherently have unique problems and differ from one another because the parties are free to choose a tax system that is considered to be the most effective for their conditions, provided that the general rules are observed.

**In recent years, in order to harmonize the Bulgarian indirect taxation with that of the other EU member-states, a number of new, specific VAT regimes have been introduced.**

The most popular ones are:

- distance selling - or selling over the internet of Bulgarian traders registered under the VAT Act of taxable and non-taxable persons from the EU members-states whose intra-community supplies (ICS) are not subject to taxation. Deliveries are dispatched or transported by or for the account of the supplier from the territory of a member-state other than that in which the transport ends. (art. 14 of the VAT Act);

- three-sided operations - that taxation is used when deliveries of goods are carried out through an intermediary - between three persons

registered for VAT purposes in three different EU member-states (art. 15 of the VAT Act);

- Supply of investment gold;
- Taxation of investment projects;
- Taxation of intra-community supply (ICS) and intra-community acquisition (ICA) of new vehicle;
- Taxation of online services, telecommunication services and those on radio and television broadcasting;
- Reverse charge VAT on scrap, waste and grains and technical services.

**Some of the specifics of VAT are related to the occurrence of a chargeable event.** The date of occurrence of supply as a chargeable event is one of the most important categories on which the VAT system is based. Its precise definition is crucial, since on that date the VAT becomes chargeable on taxable supplies except for exemptions and those that take place outside the territory of Bulgaria.

A chargeable event generally occurs on the date on which the ownership of the goods is transferred and the date on which a service is performed (Milinov & team, 2007, p. 308).

This transfer can occur with the signing of the contract and the transfer of the object itself to a buyer, forwarder or carrier. This will happen, if in the contract of sale there is no clause which postpones the transfer of ownership - until certain conditions are fulfilled or until the expiry of a specific contract period. When it comes to delivery of service, a chargeable event occurs on the date on which the service is performed and paid. A chargeable event may also occur on the date of receipt of advance payment of a delivery if this is specified in the relevant contract. On the date of payment the tax becomes chargeable if the supply is subject to VAT. Bulgarian legislation complies with the rules of EU legislation. There are certain exceptions:

- An exception to the general rule in Bulgarian laws makes advance payments on intra-community supplies with countries-members of the European Community. In this case, there is no tax event and the tax should not be charged.

- With contracts of sale postponing the transfer of ownership in leasing contracts and commission agreements the chargeable event occurs on the date of the actual presentation of the goods. The reason is in the provisions of the Sixth Directive of the EEC of May 1977, which treats as a supply, not only the transfer of the right of ownership over the goods but also the actual transfer of goods from one person to another.

The peculiarity in these cases arises when there is an actual supply of goods under a contract which provides for transfer of ownership under a

suspensive condition or term. In such case, with the transfer of the goods from the seller to a buyer, the latter does not become an owner of the belongings given to him. However, the supply of goods occurs. **This can be represented by the following methodical cases:**

- Between two legal persons a contract has been concluded for the sale of goods on payment with a clause to postpone the transfer of ownership until the last instalment due is paid. The contract was signed in January 2014, the goods being delivered to the buyer on 15 January. Under the terms therein the price of commodity is 36,000 BGN, to be paid in 12 monthly instalments (each amounting to 3 000 BGN) by the end of January 2015, then by virtue of the contract, the ownership over the belongings will go from the seller to the buyer. There is a supply of goods which occurs as a chargeable event on January 15, 2014, although at this point, and until the end of January 2015 the supplier remains the owner of the possessions.

- Actual provision of goods under a lease contract, which explicitly provides for the transfer the ownership of the goods. In such cases one chargeable event occurs - the supply of goods, at the date of the actual provision of goods from a lessor to a lessee. Thus to the lessor, if a registered person for the purposes of VAT, a liability to VAT arises on the full amount due under the contract as early as the period of the actual delivery of the goods. That rule has an exception, when the above said may not apply if the lease provides for only an option to transfer ownership of the goods. In this case, the rules for determining the number of tax events and the dates of their occurrence, are those valid for the supplies with periodic, staged or continuous implementation. This means that there is more than one chargeable event - each period or stage for which a payment is agreed (lease payment). It is considered that each payment is a separate chargeable event that occurs on the date on which the instalment for its repayment becomes due. VAT is payable in parts, and as early as the delivery of goods from the lessor to the lessee.

- Actual delivery of goods to a person acting in his own name and at the expense of others. It's a situation where the goods for sale are presented to a person (consignee) by another person (trustee). The purpose of these contracts is the first person to accept the goods, to sell it in their own name and at the expense of trustee and to sell it then to a third person. Tax event will occur on the date of actual delivery of goods from the trustee to the consignee, regardless of the fact that neither at this time, nor at any other time thereafter between them there is a transfer of ownership of the goods, by which the consignee disposes on the transaction with a third party.

It is typical for the supplies with periodic, staged or continuous implementation that each party thereon fulfils its obligation with

considerations that are periodic and repetitive over time, usually at various intervals. Such are the services under renting of movable and immovable property, leases and other services. As a supply of periodic implementation may also be determined a contract, under which over a period of time the seller must provide the buyer goods predetermined in type, quantity and quality, and the buyer must pay the due price at an agreed time after each delivery.

The situation is similar in the case of contracts for construction services with a sub-stage implementation:

Between two local registered persons a contract was concluded for construction service on 10 Jan. 2017. It includes staged construction of a building on a landed property located in Bulgaria, which is owned by the assignor under the contract. Persons have agreed that each of the different stages of construction of the building will be received by the assignor after its implementation. The payment of the service will be done separately for each of the performed and submitted stages within five days after its submission. In this situation, the stages on which a payment is agreed are as many as the tax events that will be available. Thus, if the first stage is completed and accepted by the assignor on 04 Oct. 2017 and there have been no advance payments until that data, a VAT-chargeable event shall occur on 15 Apr. 2017. Similarly, the persons proceed as regards the remaining stages of performance and acceptance of works.

A chargeable event is an event that gives rise to chargeability of tax. Chargeability of tax is the date on which an obligation arises for charging and paying tax but in certain situations the tax is chargeable without the occurrence of a chargeable event. It is an advance payment for supplies within the country, in which VAT becomes chargeable on the date of payment, except when committed in relation to intra-community supply. There may be cases where the actual receipt of the advance payment gives rise to a chargeable event respectively, chargeability of VAT. Such are the cases of sale of goods by mail order or online. For the exempted deliveries, on the date of occurrence of the chargeable event a reason arises for charging a tax. However, this in no case means that upon receipt of an advance payment on an exempt supply where no chargeable event occurs, the resulting advance payment must be taxed with VAT. The tax treatment will be the same as that for the transaction in relation to which it was received. If it is an exempt supply and / or outside the material scope of the law, then it is not subject to tax.

**Special rules of chargeability on intra-community supplies and acquisitions.** Typical of them is that the tax does not become chargeable regarding the received payment or pre-payment done. Bulgarian legislation

complies with the rules of European legislation in terms of occurrence and chargeability of VAT on intra-community transactions. It contains identical rules of occurrence of intra-community supplies and intra-community acquisitions as a chargeable event as well as for charging VAT on them.

The basic rule of a chargeable event on intra-community supply and intra-community acquisition arises on the date on which a chargeable event would occur upon a delivery in the country. This means that for the intra-community supplies and acquisitions, the general provisions are applied for the occurrence of supplies as events for VAT purposes or in principle, the intra-community supplies (ICD) and intra-community acquisitions (ICA) will occur on the date on which the ownership over the goods, subject of the transaction are transferred.

The tax on intra-community supplies and intra-community acquisition becomes chargeable on the fifteenth day of the month following the month during which the chargeable event occurs. Or, unlike the deliveries of goods within the country the tax on intra-community supplies and intra-community acquisition is not always required on the date of occurrence of the tax event.

Regardless of the above, the tax becomes chargeable on the date of invoice, if that invoice is issued before the fifteenth day of the month following the month during which the chargeable event occurs. Basically, Directive 2006/112 of the European Union does not define specific time periods in which the invoice is to be made but allows each member-state to regulate deadlines for invoicing of transactions carried out on their territory. Under the Bulgarian VAT Act, with the intra-community supplies, including the cases of advance payment, the invoice shall be issued not later than the fifteenth day of the month following the month during which the delivery has occurred as a tax event. With the intra-community acquisition the terms for issuing an invoice depend on the laws of the member-state where the company that has carried out the intra-community supply is registered for VAT purposes.

Value added tax does not become chargeable on the date of the invoice, even if it is made before the fifteenth day of the month following the month of the chargeable event, when it is issued in regard with a payment made before the date of the occurrence of a chargeable event. A similar rule is not written in Directive 2006/112 of the European Union, which means that under EU legislation and according to invoices drawn up in relation to advance payments there may occur chargeability of VAT on ICS and ICA, especially when the payment is made in full and not in partial amount.

**From the above we can conclude that the tax on intra-community supply becomes chargeable on the date on which the supplier invoices the intra-community transaction, whereas with the intra-community**

**acquisition the tax becomes chargeable on the date on which the supplier has issued the invoice on an intra-community supply carried out by him.**

A particular case is charging VAT on services received with the reversed tax liability where the supplier is established outside Bulgaria and where the tax is payable by the person receiving the services - the Bulgarian taxpayer. In this case, besides the date of the chargeable event, the date of the chargeability of VAT should also be determined. Since the providers of the services are usually persons registered for VAT purposes in another member-state, errors are committed for the services to be identified with intra-community supply and intra-community acquisition. The supply of services however, performed between two persons registered for VAT in different member-states do not fall within the concepts of "intra-community supply" and "intra-community acquisition". ICS and ICA represent supplies of goods and not services.

## **2. Reverse charge VAT on scrap, waste, grains and technical services**

Particular attention deserves one of the relatively new and little known, although extremely important and effective tax regimes - namely, reverse charge VAT. This is a very topical specific regime, by which the state seeks to cope with the increasingly frequent misuse of VAT with the null transactions from which budget loses hundreds of millions Levs a year. Frauds consist primarily in using phantom companies that issue invalid tax invoices on which traders deduct a tax credit. **When implementing the system of the reverse charge there is no effective cash flow of VAT for the supplies, i.e. it becomes impossible for the unpaid VAT to be restored, which makes the regime more effective.**

Unlike other tax regimes, the peculiarity in this one is that it can be implemented unilaterally by a member-state. To begin to apply the regime, it must make a request to the European Commission to derogate specific texts of Pan-European VAT practice. If this request is not granted, the state has no right to apply the regime. The changes in Directive 2013 (43) of the EU Council made it possible to avoid this tedious procedure. It allowed the member-states, in their sole discretion to apply this regime for certain types of goods and for a certain period of time.

On the basis of this Directive and the VAT Act in our country the VAT reverse charge mechanism was introduced in trade with grains and industrial crops, scrap and waste. It applies for supplies on the territory of the country, when all of the following conditions are fulfilled:

- The goods subject to delivery are specified in Part 2 of Annex 2 to Chapter 19a of the VAT Act and are classified under a relevant tariff code of the combined nomenclature established by Annex 1 to the Regulation EEC/2658/87 of the Council concerning the tariff and statistical nomenclature and the Common Customs Tariff.

- The customer is registered under the VAT Act, whether or not the provider is a taxable person.

The reverse charge VAT is an exception to the general principle of VAT, whereby the tax is levied not by the provider but the recipient and is an effective tool in the fight against tax fraud and tax evasion. The mechanism requires, upon delivery of certain goods VAT to be payable by the recipient to the same person registered for VAT, regardless of whether the provider is registered or unregistered person.

## **2.1. Taxation of grains and industrial crops**

These include wheat, barley, rye, oats, corn, sunflower, millet, rapeseed, rice, sugar beet and others.

Of no importance for the application of the regime is the fact that the parties to the supply are producers, traders or others. Depending on the status of the supplier, which is legally preventive, the following procedures are available for charging the tax and using the tax credit:

- When the supplier is a taxable person (e.g. a VAT-registered legal entity or physical person.) In these cases the supplier of the goods documents the supply by issuing an invoice in which, as a basis for charging VAT, reverse charge is indicated pursuant to Art. 63a, Para. 2 of the VAT Act. The recipient draws up a protocol in accordance with Art. 117, Para. 2 of the VAT Act with the following mandatory information: identification number of the supplier, number and date of the invoice. The protocol shall be issued within 15 days from the date on which the tax on the delivery has become chargeable. The same is recorded in the sales ledger for the tax period during which it is issued. The recipient is entitled to deduct the tax credit for the tax which he has reverse-charged to himself, by entering the protocol, in which the tax has been assessed and reported in the purchase ledger in the month in which the right arose or in any of the following 12 months. The tax rate in this mechanism is the standard VAT - 20%.

**Practical reverse charge can be presented by the following methodological case:**

A grain producer supplies 10 tons of wheat @ 270 BGN/ton to a trader, who is a VAT-registered person as well. Schematically, we can express it as follows.



Supplier:

- issues an invoice for BGN 2700 (10 tons x 270 BGN) with a "reverse charge" statement

Recipient:

- draws up a protocol for VAT (20% of BGN 2700) = BGN 540

If the trader sells the wheat to a producer, such as a mill (also a VAT-registered person) at BGN 300 per ton, the reverse charge VAT rule lapses. In this case

The merchant (Supplier):

- issues an invoice for BGN 3600 including VAT (10 tons x BGN 300 + 20% VAT = 3,600 Levs)

Recipient (Mill):

- does not draw up a protocol for VAT under Art. 117 or Art. 163 b, Para. 1, Item 2 of the VAT Act.

It is critical that the supplier verifies the tax status of the recipient for the purposes of Bulgarian VAT.

- When the supplier is not a tax-liable person (i.e. an individual who is not a Sole Trader). In this case, the suppliers have no obligation to issue invoices, so the right of deduction is exercised by the recipient. The latter charges the tax with a common protocol for all products for which the tax has become chargeable during the tax period. It is issued on the last day of the relevant period and is recorded in the sales journal for each sale separately. The right to tax credit is claimed by its recording in the protocol and the purchase ledger in the month in which it has arisen or in one of the next 12 tax periods.

We can give as an example the following case:

A farmer selling 1000 kg rice to a merchant for 3000 Levs

Supplier:

- issues a receipt for 3000 Levs

Recipient:

- draws up a protocol under Art. 163 b, Para. 1, item 2 of VAT Act at a provider, a tax non-liable legal person for charging BGN 600 of VAT (20% of BGN 3,000).

- draws up a protocol under Art. 117, Para. 2 of VAT Act at a provider, a tax-liable person for charging BGN 600 of VAT (20% of BGN 3,000)

With an advance payment, the tax becomes chargeable on the date when the payment is made.

The supplies of grains and industrial crops are taxable under the VAT Act, which is why, as mentioned, the recipient is entitled to deduct the tax credit for the tax charged by himself in case that there are no restrictions under art. 70 of the same Act.

Of great importance for the tax-liable farmers, when applying the VAT reverse charge mechanism is its accelerated recovery. It is recovered in 30 days from the filing of legal declaration when:

- For the last 12 months before the current period a tax-liable person has committed zero-rated taxable supplies totalling more than 30% of the total value of all his taxable supplies, including those with zero rate and the equalized ones.

- For the past 12 months before the current month a tax-liable person has committed taxable supplies at the rate of 20%: more than 50% of the total value of all taxable supplies committed by him.

Although the supplies are included in the VAT reverse charge mechanism, it cannot be used in the cases of import, export, intra-community supplies and acquisitions, three-sided transactions, and zero-rated supplies of goods outside the EU.

In these cases, the general rules are applied provided by law.

## **2.2. Taxation of services related to waste**

The terms "Household waste", "Industrial waste", "Construction waste", "Waste from ferrous and nonferrous metals", "Waste from ferrous and nonferrous metals of household character" refer to the Waste Management Act (WMA) and are defined in the supplementary provisions of the VAT Act, item 73-78. In their taxation, a special order is provided. Therefore, the accepted classification of these supplies is important for their correct VAT treatment, which in turn reduces the risk of accrual of additional VAT liabilities in case of incorrect treatment.

The services associated with waste include: scrapped machines; used tires and accumulators; concrete fractions from destroyed buildings; unrealised printed products; recycled plastic waste; recycling of non-hazardous waste by incineration.

The deliveries of waste and services related to waste are subject to special regulations in VAT Act. Their tax treatment is governed by the provisions of Chapter 19, art. 163a and 163b.

Generally, purchases relating to waste shall be treated as supplies entitled to tax credit, after observing the general conditions of the VAT Act.

Disputable classification of supply usually occurs when the goods are used or generated in the main economic activity of a person and the nature of these products allows that person to realise economic benefit from them. They are sold to VAT registered persons, the latter being able to use them for the purposes of their business activities, including in the form of raw material.

For the practical application of VAT reverse charge mechanism, the same requirements are valid as for cereals and industrial crops.

The following case for unrealised printed product can be given as an example:

A tax non-liable person, who is not registered for VAT, sells unrealised printed products per 1000 Levs to a registered person under the VAT Act.

Supplier:

- issues a receipt for 1,000 Levs (not liable)

Recipient:

(merchant, a registered person under the VAT Act)

- draws up a protocol under art. 163b, paragraph 1 item 2 of the VAT Act for 200 Levs (1,000 x 20%)

When using the reverse charge mechanism, the definitions for VAT as regards the supplies related to waste are not uniformly applied by tax payers and tax authorities. An example of this is the presence of questionable qualifications given to some of the supplies by the tax authorities (e.g. for fragments and similar material - sawdust (shavings and bran), woodchips in the processing of timber; sunflower husks, fruit stones and etc.). The taxpayers in their turn find it hard to make absolute distinction of supplies and often allow application treatment. All this leads to the admission of a series of violations in the implementation of mechanisms - some of them because of their detailed ignorance, others deliberately in order to achieve an economic benefit. In these cases, an adjustment needs to be done applicable to the erroneous documents issued under article 116 of the VAT Act. It provides for them to be zeroed and new ones to be issued, regardless of whether these are charged or uncharged for VAT.

Problems also arise when applying the regime, in the cases of negotiating complex supplies with an agreed total price. The reason is that in many cases, one of the supplies is related to waste, and the other - not. In situations like this, it is necessary to analyse which supply is the principal and which accompanying for VAT purposes. This is important because the nature of the principal supply determines the applicable under the VAT Act regime of the accompanying ones. It is important that analyses be made by both parties of the delivery - suppliers and recipients, who also should verify that

all legal requirements for implementing the reverse charge mechanism are available.

**Author's conclusions:**

- Implementation of specific VAT regimes is an efficient approach that will be an important element of gradually increasing supranational regulation.

- Specific VAT regimes are an important part of the reform in the Bulgarian indirect taxation system and an important achievement of the modern financial and tax strategy.

- The harmonization of European indirect taxation within the EU goes through the implementation of specific VAT regimes and is an important part of improving the legal framework for achieving better results for the economy.

- The implementation of specific VAT regimes can be considered as a basis for better collection and efficiency when forecasting the revenues in the state budget, and formulation of adequate solutions in the public sector.

**Conclusion**

Based on the above it can be concluded that the implementation of specific VAT regimes is a complex and effective process that provides a good income for the state. Despite the brief period of practical application of some of the specific VAT regimes, in our country significant results have been achieved in 2016, which boil down to:

- increasing the budget revenues from VAT;
- reducing the share of tax fraud and declaring the actual income from tax-liable persons;
- reducing significantly the issuance of invoices from non-existent economic operators used for illegal VAT refunds or a reduced amount of tax due for depositing;
- protecting the honest economic operators from transactions with incorrect suppliers and reducing the unfair competition;
- reducing the intermediaries in the supply chain;
- providing additional working capital to the suppliers of grains and industrial crops.

Along with the achievement of positive results, there are some weaknesses that need to be resolved. Such is the case with the farmers who buy seeds, chemicals, and other technical means charged with VAT, and sell the output without VAT. This causes serious disturbances in their activities,

but gives us no reason to assume that the VAT reverse charge mechanism is not effective. Moreover, **the author believes that the range of application of the VAT reverse charge mechanism should be expanded to other sectors of the economy to optimize the results in tax collection, as well as forecasting the revenues in the state budget.**

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ISSN 2367-9301

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# Requirements to be met when depositing articles for Narodnostopanski arhiv journal

**1. Number of article pages:** from 12 to 25 standard pages

**2. Deposit of journal articles:** one printout (on paper) and one in electronic form as attached file on E-mail: NSArhiv@uni-svishtov.bg

**3. Technical characteristics:**

- performance Word 2003 (minimum);
- size of page – A4, 29-31 lines and 60-65 characters on each line;
- line spacing 1,5 lines (At least 22 pt);
- font – Times New Roman 14 pt;
- margins – Top - 2.54 cm; Bottom - 2.54 cm; Left - 3.17 cm; Right - 3.17 cm;

- page numbering – bottom right;

- footer text – size 10 pt;

- graphs and figures – Word 2003 or Power Point.

**4. Layout:**

- title of article, name of author, academic position and academic degree – font Times New Roman, 14 pt, with capital letters Bold – centered;

- workplace, postal address, telephone and E-mail;

- abstract in Bulgarian up to 15 lines; key words – 3 to 5;

- JEL classification of publications on economic topics (<http://ideas.repec.org/j/index.html>);

- main body (main text);

- tables, graphs and figures are software inserted in the text (they should allow linguistic corrections and translation in English). Numbers and text in them should be written with font Times New Roman 12 pt;

- formulas are inserted with Equation Editor.

**5. Rules for footnote:** When citing sources, authors should observe the requirements of **APA Style** at <http://www.apastyle.org/> or at <http://owl.english.purdue.edu/owl/resource/560/01/> or at <http://www.calstatela.edu/library/guides/3apa.pdf>.

Each author is responsible for promoting ideas, content and technical layout of the text.

**6. Manuscripts of lecturers without an academic rank** should be accompanied by a transcript of the minutes of the Department meeting at which the proposed paper was discussed.

**From 1st of January 2017 the English language title of the journal is changed from “Narodnostopanski arhiv” (transliterated from Bulgarian) to “Economic Archive”.**

**Authors of papers published in Narodnostopanski arhiv journal are responsible for the authenticity of the materials.**

From the Editorial Board

**[www.uni-svishtov.bg/NSArhiv](http://www.uni-svishtov.bg/NSArhiv)**