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# **INTER-JURISDICTIONAL TAX COMPETITION – THE BULGARIAN CASE**

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**Assoc. Prof. Lyudmil V. Naydenov, PhD<sup>1</sup>**

*The University of Economics – Varna,  
The Finance Department*

**Abstract:** The paper highlights the specific features of inter-jurisdictional tax competition, and the related positive effects and risks. It analyzes the tax policy of the Bulgarian local authorities and discusses the factors limiting the inter-jurisdictional tax competition in our country. On the basis of specific data on the dynamics of the rates of key local taxes, it is argued that there is lack of a targeted policy of attracting and retaining a tax base through the manipulation of tax rates. It is concluded that the tax rates of the local taxes in Bulgaria are most often at the average of the legally defined upper and lower limits. It is supported that the low value of the ratio Revenues and aids in the municipal budgets / GDP does not motivate entrepreneurs to invest in a particular jurisdiction because of the differences in the absolute amount of local taxes.

**Key words:** inter-jurisdictional tax competition, local revenues, local taxes, fiscal decentralization.

**JEL:** H71, H72.

The definition of the concept of tax competition between the different territorial structures, on the one hand, and the delineation of its specific characteristics, boundaries, advantages and disadvantages, on the other hand, is a complex process. Tax competition can be defined as an opportunity a structure, be it state or municipality, to determine independently both the tax base and the tax rate, that is, to carry out a tax policy, based on a relatively mobile tax base, attracted and maintained through targeted changes to the taxable base, tax rates and preferences granted. Inter-jurisdictional competition, in turn, most often implies strategic changes in tax rates, due to the fact that local powers in defining the tax base and allowances in most

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<sup>1</sup> E-mail: lnaydenov@ue-varna.bg

countries are subject to restrictions. Within the above framework, the *research area* and the *subject* of this paper are inter-jurisdictional tax competition and the forms of the process in Bulgaria respectively. *The research is based on the view that territorial structures in Bulgaria have limited opportunities, but at the same time (and more importantly) low willingness to pursue purposefully a strategically-oriented policy of tax competition.*

As a sovereign right of countries and jurisdictions to define the parameters of their fiscal policies, tax competition is linked to the movement of capital, goods, services and people to countries and territorial structures with more favourable tax allowances or lower tax rates. This movement, viewed as a competitive advantage in a market economy, leads (all other things being equal) to lowering prices for public goods and services, reducing unemployment and curbing the informal sector. The widely proclaimed benefits of regional tax autonomy depend directly on "local governments both having the authority to decide how much revenue they raise (by increasing rates – L. N.) and being openly responsible to their citizens for doing so." (Bahl, R. and Bird, R., 2008, p. 8). It is not for nothing that Pierre Garelo binds competition to freedom (Garelo, P., 2007, p. 2). In addition, tax allowances, correlating directly with competition in fiscal policy, have the potential (but not guaranteed) effect of rising economic growth rates, increasing investment, improving the performance of the administration, which in turn is a prerequisite for a favourable business environment and improvement of the efficiency of public sector functioning (Gurgur, Shah, 2005; Wilson, Wildasin, 2001). To maintain well-functioning legislative, executive and judicial authorities, to curb bureaucracy, to enhance the quality of health, education, cultural services and infrastructure offered, all other things being equal, requires continuous and consistent efforts and fulfillment of the financial parameters of the state and municipal budgets. On this basis, it is logical to assume that the structures with higher tax revenue have better developed social systems and maintain a higher quality of public goods. Under this assumption, a possible reduction in the tax rate and / or the extension of the range of tax relief would be equivalent to a reduction in per capita income. Tax competition among the different territorial structures is therefore desirable and necessary, provided that the different tax bases and tax rates as a basis for determining the tax liability do not have a negative impact on the relative share of own revenues in the structure of the budget revenues of the respective jurisdiction, while at the same time lead to the improvement of the business environment and the investment prospects for the region, the infrastructure and the quality of the local public goods.

It is known that the tax liability is calculated as a product between the

tax base and the tax rate. Therefore, *the analysis of tax competition between the different territorial structures in Bulgaria* requires consideration of the ability of local authorities and the government to influence each of the two elements that comprise the tax liability.

A tax *base*, as an element that determines the amount of tax due, is different for the main local taxes to which it relates: property taxes, inheritance taxes, gift taxes, taxes on acquisition of property for consideration, transport vehicle taxes, licence taxes, and tourist taxes. The normative regulation of the first element that forms the tax base is clearly laid down in the Local Taxes and Fees Act, where the items, subject to taxation and the tax relief options are precisely defined. The law provides for the items that are exempt or are not taxed with the corresponding local tax, too. Therefore, *the Bulgarian municipalities have no opportunity to influence the size of the tax base*, which, as we have already noted, is one of the elements determining the absolute amount of the specific local tax. This is quite normal, given that as per the provisions of the Public Finance Act the structure of the municipal budget includes local taxes - "as per conditions, procedures and ranges, laid down by law" (Public Finance Act, Article 45, para. 1). The centralized determination of the tax base gives grounds to conclude that the powers of the state, in the person of its legislative body, are greater than those of the municipal parliament.

We can arrive at the conclusion that *the tax base of local taxes is not a tool that municipal administrations can use to improve their competitive advantages*. Moreover, this element of tax liability does not provide an answer to the question which municipality provides investors with better business conditions. Therefore, we cannot speak of tax competition between the territorial structures considered as an opportunity for the Bulgarian municipalities to determine their tax base independently. Notwithstanding the above, it should be specified that the legally provided methodology for determining the tax base of individual local taxes is a prerequisite for a different absolute amount of the tax liability. Evidence in this respect is the fact that the tax assessment for real estate in villages and small settlements is lower than in the jurisdictions of the district centers and the capital. Patent tax, on the other hand, varies according to the location of the items, and ships, sailing yachts and motor yachts cannot be considered taxable in all municipalities. Therefore, *the order, the conditions and the scope of the tax base of the local taxes are legally regulated, but the taxable base established for the same items may be different for the different jurisdictions* and result in different municipal revenues.

The second basic element determining the size of the tax liability is *the tax rate*. In Bulgaria, we can speak of tax competition between the different

territorial structures after the Constitution was revised in 2007. According to Art. 141 para. 3 of the Basic Law of the country "The municipal council shall determine the size of local taxes under conditions, by a procedure and within the frames, established by law." (Constitution of the Republic of Bulgaria, Article 141, paragraph 3). The empowerment of local parliaments to determine the tax rates of local taxes is the first step towards creating conditions for tax competition between municipalities. However, it should be noted, that the tax rates can be altered within the lower and upper limits stipulated in the Local Taxes and Fees Act. The answer to the question whether the legislative initiative for a change in the Constitution and the LTFA directly correlates with tax competition between local jurisdictions requires an analysis of the dynamics of tax rates in the different territorial structures by types of local taxes (see Table 1).

The analysis of data related to *the size of the tax rate for non-residential property of legal entities* gives grounds for making several important conclusions and summaries. At the statutory lower and upper limits of the real estate tax of 0.1 and 4.5 per thousand respectively, on average for all territorial structures in Bulgaria the tax rate for 2012 is 1.69 per thousand, for 2013 – 1.77 per thousand, for 2014 – 1.77 per thousand and for 2015 – 1.79 per thousand. Therefore, *the tax rate dynamics for the tax analyzed is very narrow, significantly above the lower limit of 0.1 per thousand.*

The highest growth is observed in the tax rate of the non-residential property tax of the legal entities in the Pleven district - from 1.73 per thousand in 2012, it has reached 2.75 per thousand in 2015 (59% growth). For the Yambol-based jurisdiction, the tax rate is within the range of 1.28 per thousand in 2012 and 1.87 per thousand (46% growth) in 2015. In the territory structure with center Veliko Tarnovo the growth of the tax rate of the real estate tax for the analyzed period is 11%, for the jurisdictions with center Vidin and Pazardzhik this growth is 10% and 15% respectively.

In the territorial structure with center Sliven, the tax rate for the non-residential property tax of legal entities decreases from 1.86 per thousand in 2012 to 1.48 per thousand in 2015. There is also a slight decrease in the tax rate for the analyzed period in the jurisdiction with center Stara Zagora. In 2015, the tax rate on the non-residential properties of legal entities is the lowest in the territorial structure with center Rousse – 1.31 per thousand and the highest in the jurisdiction with center V. Tarnovo – 2.22 per thousand. Therefore, the dynamics of the tax rate by individual territorial structures for 2015 is insignificant and fluctuates within narrow limits.

For the capital, the tax rate of the tax on non-residential property of legal entities does not change and for the analyzed period it is 1.88 per thousand. The real estate tax in the Razgrad municipality has not changed,

either - for the period 2012-2015 it is 2.1 per thousand. For the jurisdictions with centers Blagoevgrad, Burgas, Varna, Montana, Rousse, Shumen, Silistra, the movement of the tax rate for the analyzed tax is within a very narrow range.

The analysis of the data in Table 1 on *the tax rate for transport vehicles with engine power between 74 kW and 110 kW* gives reason to conclude that *the changes in the tax rate by individual territorial structures are insignificant*. Moreover, for a number of jurisdictions the tax rate on vehicles with the specified engine power for the analyzed period is the same. For example, for the jurisdiction with center Blagoevgrad it is BGN 1.18 per kW, for the territorial structure with center Vidin the tax rate is BGN 1.13 per kW, for the jurisdiction with center Dobrich - BGN 1.48 per kW, for the territorial structure with center Rousse - BGN 1.11 per kW. The tax rate for vehicles with engine power between 74 kW and 110 kW in the jurisdictions with the centers of Razgrad, Silistra, Sofia and Stara Zagora for the period 2012-2015 is also constant and correspondingly amounts to BGN 1.37 per kW, BGN 1.29 per kW, BGN 1.38 per kW and BGN 1.39 per kW.

The analysis of the tax rates for transport vehicles with engine power between 74 kW and 110 kW also shows that for 2015 the tax rate was the lowest in the jurisdiction with center Ruse - BGN 1.11 per kW and the highest - in the territorial structure with center Bourgas - BGN 1.54 per kW respectively. The rate in the territorial structure with center Bourgas is 39% higher than in Ruse, which gives reason to conclude that *the difference between the highest and the lowest rate of tax rate is not big*. This is, on the one hand. On the other, taking into account the fact that the lower and the upper limit for the tax on transport vehicles with engine power between 74 kW and 110 kW are respectively BGN 1.10 per kW and BGN 3.30 per kW, it can be summarized that for all municipalities the rate is well below the upper limit set by the LTFA.

*Table 1. Tax rates of selected local taxes in Bulgaria  
for the period 2012–2015*

Location	Tax rate for non-residential properties, owned by enterprises, ‰				Tax rate for transport vehicles with engine power between 74 kW and 110 kW, BGN./kW			
	2012	2013	2014	2015	2012	2013	2014	2015
<b>Blagoevgrad</b>	1.35	1.34	1.35	1.35	1.18	1.18	1.18	1.18
<b>Bourgas</b>	1.57	1.59	1.59	1.59	1.53	1.54	1.54	1.54
<b>Varna</b>	1.97	1.99	2.00	2.00	1.59	1.58	1.52	1.52
<b>V. Tarnovo</b>	2.00	2.18	2.22	2.22	1.46	1.48	1.50	1.50
<b>Vidin</b>	1.49	1.61	1.61	1.64	1.13	1.13	1.13	1.13
<b>Vratsa</b>	1.83	1.83	1.83	1.89	1.20	1.17	1.18	1.18
<b>Gabrovo</b>	1.51	1.55	1.55	1.55	1.14	1.14	1.15	1.15
<b>Dobrich</b>	1.41	1.46	1.46	1.46	1.48	1.48	1.48	1.48
<b>Kardzhali</b>	1.64	1.63	1.74	1.76	1.23	1.25	1.25	1.25
<b>Kyustendil</b>	1.49	1.52	1.52	1.52	1.16	1.17	1.17	1.17
<b>Lovech</b>	1.92	2.04	2.04	2.04	1.30	1.23	1.27	1.27
<b>Montana</b>	1.66	1.68	1.68	1.68	1.11	1.15	1.15	1.15
<b>Pazardzhik</b>	1.56	1.79	1.79	1.79	1.16	1.18	1.18	1.18
<b>Pernik</b>	1.75	1.87	1.87	1.87	1.38	1.36	1.36	1.36
<b>Pleven</b>	1.73	2.83	2.83	2.75	1.16	1.17	1.16	1.16
<b>Plovdiv</b>	1.51	1.71	1.72	1.79	1.27	1.54	1.53	1.53
<b>Razgrad</b>	2.01	2.01	2.01	2.01	1.37	1.37	1.37	1.37
<b>Ruse</b>	1.28	1.31	1.31	1.31	1.11	1.11	1.11	1.11
<b>Silistra</b>	1.69	1.68	1.67	1.67	1.29	1.29	1.29	1.29
<b>Sliven</b>	1.86	1.48	1.48	1.48	1.25	1.25	1.25	1.25
<b>Smolyan</b>	1.65	1.81	1.82	1.82	1.20	1.19	1.18	1.18
<b>Sofia (capital)</b>	1.88	1.88	1.88	1.88	1.38	1.38	1.38	1.38
<b>Sofia</b>	1.86	1.98	1.98	1.95	1.17	1.18	1.17	1.17
<b>Stara Zagora</b>	1.45	1.46	1.43	1.43	1.39	1.39	1.39	1.39
<b>Targovishte</b>	1.28	1.31	1.38	1.38	1.35	1.36	1.36	1.36
<b>Haskovo</b>	1.98	1.95	1.90	1.90	1.40	1.39	1.40	1.40
<b>Shumen</b>	1.70	1.70	1.70	1.73	1.38	1.38	1.38	1.38
<b>Yambol</b>	1.28	1.78	1.87	1.87	1.14	1.39	1.39	1.39
<b>Bulgaria</b>	<b>1.69</b>	<b>1.77</b>	<b>1.77</b>	<b>1.79</b>	<b>1.32</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>

Source: Institute for Market Economics.

*Table 2. Tax rates of selected local taxes in Bulgaria for the period 2012–2015*

Location	Tax rate of the annual license tax for retail trade on a net selling space of the establishment not exceeding 100 square meters – at the best selling space, BGN/square meter				Tax rate on acquisition of property for consideration, ‰			
	2012	2013	2014	2015	2012	2013	2014	2015
<b>Blagoevgrad</b>	11.36	11.21	11.22	11.22	1.96	1.97	1.96	1.96
<b>Bourgas</b>	14.86	14.91	14.60	14.60	2.53	2.57	2.57	2.57
<b>Varna</b>	16.72	16.54	16.54	16.54	2.61	2.62	2.62	2.62
<b>V. Tarnovo</b>	11.98	12.00	12.02	12.02	2.49	2.55	2.60	2.60
<b>Vidin</b>	4.33	4.53	4.53	4.53	2.54	2.55	2.55	2.55
<b>Vratsa</b>	6.84	6.84	6.84	6.84	2.30	2.29	2.29	2.29
<b>Gabrovo</b>	8.29	8.29	8.29	8.29	2.06	2.15	2.15	2.15
<b>Dobrich</b>	9.67	8.69	8.70	8.70	2.82	2.92	2.92	2.92
<b>Kardzhali</b>	8.03	8.03	8.03	8.10	2.46	2.48	2.48	2.48
<b>Kyustendil</b>	11.04	9.96	10.05	10.05	2.03	2.06	2.06	2.06
<b>Lovech</b>	10.93	10.52	10.52	10.40	2.19	2.30	2.30	2.30
<b>Montana</b>	4.77	5.12	5.12	5.12	2.35	2.39	2.42	2.42
<b>Pazardzhik</b>	9.35	9.05	9.05	9.05	2.32	2.70	2.70	2.70
<b>Pernik</b>	6.63	9.89	9.88	9.88	2.29	2.08	2.08	2.08
<b>Pleven</b>	9.32	9.23	9.24	9.24	2.75	2.78	2.78	2.77
<b>Plovdiv</b>	13.88	13.25	13.12	13.12	2.35	2.41	2.41	2.42
<b>Razgrad</b>	9.14	9.15	9.15	9.15	2.51	2.51	2.51	2.51
<b>Ruse</b>	14.20	13.32	13.36	13.36	2.18	2.20	2.20	2.20
<b>Silistra</b>	8.16	8.07	7.95	7.95	2.34	2.32	2.31	2.31
<b>Sliven</b>	9.79	9.80	9.80	9.80	2.69	2.69	2.69	2.69
<b>Smolyan</b>	7.67	7.49	7.56	7.56	2.44	2.48	2.43	2.43
<b>Sofia (capital)</b>	20.00	20.00	20.00	20.00	2.50	2.50	2.50	2.50
<b>Sofia</b>	10.46	10.03	8.81	8.87	2.47	2.56	2.56	2.54
<b>Stara Zagora</b>	13.69	13.73	13.76	13.76	1.80	1.80	2.26	2.26
<b>Targovishte</b>	9.03	8.87	8.88	8.88	2.24	2.23	2.23	2.23
<b>Haskovo</b>	13.53	13.19	12.65	12.65	2.48	2.47	2.51	2.51
<b>Shumen</b>	5.93	9.14	9.13	8.97	2.60	2.58	2.58	2.60
<b>Yambol</b>	8.19	8.20	8.20	8.20	2.03	2.36	2.55	2.55
<b>Bulgaria</b>	<b>13.04</b>	<b>12.77</b>	<b>12.72</b>	<b>12.72</b>	<b>2.38</b>	<b>2.43</b>	<b>2.44</b>	<b>2.46</b>

Source: Institute for Market Economics.

The data in Table 2 can be used to analyze the dynamics of the tax rate of another local tax - *the annual licence tax for retail trade on a net selling space of the establishment not exceeding 100 square meters – at the best selling space*. On average, for all jurisdictions in Bulgaria, the dynamics of the tax rate for the annual licence tax at these parameters fluctuates within a narrow range - from BGN 13.04 per sq m in 2012 to BGN 12.72 per sq m in 2015. However, when comparing the tax rates for the individual jurisdictions, the difference is significant and exceeds 400%. For example, the licence tax is the highest in the capital - BGN 20.00 per sq m and the lowest in the jurisdictions of Northwestern Bulgaria - BGN 4.53 per sq m selling space in Vidin and BGN 5.12 per sq m selling space in Montana. At the same time, the dynamics of the tax rate for the annual license tax for retail trade on a net selling space of the establishment not exceeding 100 sq meters – at the best selling space, for each territorial structure during the period 2012-2015 is *insignificant*. For the territorial structure with center Bourgas from BGN 14.86 per sq m in 2012, the tax amount reaches BGN 14.60 per sq m in 2014 and 2015, for Targovishte the change is from BGN 9.03 per sq m selling space in 2012 to BGN 8.88 per sq m in 2014 and 2015. For both jurisdictions, the change in the tax rate is towards decrease, albeit in very narrow limits. For the territorial structures with centers Vratsa and Gabrovo, the tax rate for the period 2012-2015 is constant - BGN 6.84 per sq m selling space and BGN 8.29 per sq m selling space. The growth in the tax rate for the annual licence tax on retail trade for the period 2012-2015 is highest in the jurisdiction with centre Shumen - 51% and 49% in the jurisdiction with centre Pernik.

The above suggests that tax rates are higher in the large territorial structures such as Sofia, Bourgas, Varna, Plovdiv, and much lower for small jurisdictions such as Vidin, Vratsa and Montana. It should be noted here that the low rate of the licence rate (for retail trade on a net selling space of the establishment not exceeding 100 sq meters – at the best-selling space) cannot be considered as a competitive factor that attracts investors to these regions.

The answer to the question of the existence or absence of tax competition between the different territorial structures also requires an analysis of the size of the *tax rate on acquisition of property for consideration*. The tax rate of the analyzed tax (see Table 2) on average for all jurisdictions in our country varies between 2.38 per cent in 2012, 2.44 per cent in 2014 and 2.46 per cent in 2015. In *individual jurisdictions for the period 2012-2015 the dynamics is insignificant* and ranges from 1% to 25%. The lowest is the tax rate for the acquisition of property for consideration in the jurisdiction with center Blagoevgrad – 1.96 per cent and the highest in the territorial structure with centre Dobrich – 2.92 per cent. It should be noted immediately that, according to the provisions of the Local Taxes and Fees



Act, the municipal council determines the tax rate on acquisition of property for consideration in the range of 0.1% to 3%. Therefore, for the jurisdiction with centre Dobrich, it is almost at the upper limit. The outlined dynamics in the tax rates by individual territorial structures again does not give grounds to postulate that investors motivated by the different tax rates on acquisition of property for consideration will direct their capital to jurisdictions the local councils of which have set lower rates.

The definition of tax competition between municipalities as the sovereign right of territorial communities to determine both the tax base and the tax rate themselves gives grounds to summarize that *we could hardly speak of such competition in Bulgaria*. Territorial communities, as we have already argued, do not have the power to alter the tax base regulated by the LTFA. This, on the one hand, and on the other – they have the power to change the rate of tax at legally fixed lower and upper limits. However, the analysis of data related to the tax rates of the main local taxes shows that *there were no significant changes in the 2012-2015 period in the analyzed local taxes*. For example, the jurisdiction with center Kyustendil changes the rate of the real estate tax rate from 1.49 per thousand in 2012 to 1.52 per thousand in 2013, which size is kept by 2015 (2% increase). The jurisdiction with center Silistra reduces the same tax from 1.69 per thousand in 2012 to 1.68 per thousand (0.6% decrease) in 2013 and 1.67 per thousand in 2014 and 2015 (0.6% down compared to 2013). Similar is the trend in the changes in tax rates of other local taxes. The tax rate for the tax on transport vehicles with engine power between 74 kW and 110 kW for a the jurisdiction with center Targovishte goes up from BGN 1.35 / kW in 2012 to BGN 1.36 / kW (an increase of 0.7 %) and remains steady until 2015. The changes in the licence tax on retail sales by individual jurisdictions is also to be considered insignificant, as is the dynamics of the size of the tax on the acquisition of property for consideration.

*The tax competition between territorial structures should be linked not only to the number and direction of the change in tax rates but also to the importance of the dynamics of these tax rates for the change of every specific local tax*. Minor changes in the tax rates of the local taxes in the different territorial structures, on equal terms, result in minor changes in the tax liability. Moreover, for a number of jurisdictions, the rate for the analyzed local taxes is the same. In practice, this means that the product between the tax base and the tax rate does not change and, at all other things being equal; it is difficult to find arguments to justify the existence of tax competition between jurisdictions in Bulgaria. The conclusion is also confirmed by the insignificant differences between the sizes of the rates of the local taxes between individual municipalities. Therefore, *the local structures in Bulgaria*

*do not use the determination of tax rates as a competitive advantage* in terms of attracting investors and creating a more favourable environment for business development.

The study of tax competition between municipalities also requires to investigate the issue of how high, respectively low, rates of local taxes correlate directly with investors' decisions to start a business in a particular jurisdiction. To provide an answer to this question it is important to analyse the data related to the relative share of the GDP flow in the municipal budgets, presented by the ratio *Revenues and aids in the municipal budgets / GDP*. In line with the national practice, *the analyzed local revenues* have a low relative share in GDP and, therefore, in the tax revenues in the public sector. For example, for the period 2012-2015, the absolute amount of revenues and aids accumulated in municipal budgets is in a narrow range - from BGN 1,687.9 million in 2012 to BGN 1,945.0 million in 2015 (Report on the implementation of the state budget of the Republic of Bulgaria, 2012, 2013, 2014, 2015). The values of the ratio *Revenues and aids in the municipal budgets / GDP* also vary within narrow limits. The analyzed ratio changes from 2.05% in 2012 to 2.23% in 2014. At the same time, for the period 2012-2015, the budgetary relationships of the municipalities with the Central Budget have higher absolute values than the local revenues and aids, and hence higher relative weights compared to GDP. For example, the budgetary relationships of the municipalities with the Central Budget in absolute terms for 2013 are BGN 2 594.5 million and for 2015 respectively - BGN 2 482.3 million. The ratio *Municipal Budget Relationships to the Central Budget / GDP* for the two analyzed years is 3.16% and 2.8% respectively. There is also another interesting point - in our country "there is relatively inelastic, in relation to the macroeconomic development cycle, policy of transfers". (Zahariev, A., p. 23).

The presented data clearly evidence that *the own revenues of the Bulgarian municipalities are insufficient and the local authorities are dependent on central subsidies*. In this sense, *fiscal adjustments* (including when not related to the specific dynamics of the macroeconomic situation) are *a factor in limiting inter-jurisdictional tax competition in Bulgaria* and are, therefore, an alternative to such a policy.

Investors' decisions to start or continue their business in a particular jurisdiction do not only depend on the tax rates, the range of the base or the allowances; they also correlate with *the fiscal burden of taxation*. This is normal, given that "the functioning of the public sector in the conditions of fiscal decentralization reflects directly on the financial independence, sustainability and investment activity and indirectly - on the living standards of the municipalities" (Pavlova, M., p. 43). Paying taxes reduces the

disposable income of individuals and legal entities, i.e. of those who bear the tax burden. The specific meanings of the rates presented in Table 1 and Table 2 strongly support the conclusion that *the payment of local taxes in Bulgaria does not represent a significant cost for taxpayers - physical and / or legal entities*<sup>2</sup>. In other words, the accumulation of local revenue does not significantly burden corporate and household budgets. That is why *the high, resp. the low, rates of local taxes do not directly correlate with investors' decisions to start or relocate their business to a certain region of Bulgaria*. For example, the low tax rates for the licence tax for retail trade in the jurisdictions with centers Vidin, Vratsa and Montana and the high rates for this tax in Sofia city do not motivate the entrepreneurs, in the first case - to invest and in the second - to migrate. In fact, a careful analysis of the investigated dependencies points to the conclusion that there is a relation in the reverse direction – the investments and the good business environment determine the tax rate and, on this basis, the size of local taxes. In turn, factors that are determinant for starting a business in a specific territorial structure are the condition of the local market, the quality of infrastructure, the unemployment rate and the qualification of labour resources, the degree of development of health, educational, cultural, etc., services.

All of the above gives grounds to arrive at the following *more important conclusions and summaries*:

*Firstly*, the tax base of the local taxes in Bulgaria is defined in accordance with the LTFA. The territorial structures do not have the power to influence its determination, and therefore, its size, despite certain tax allowances. Consequently, Bulgarian municipalities are deprived of the opportunity to gain competitive advantages through changes in the tax base.

*Secondly*, the tax rates of local taxes are defined by the municipal councils within the range of the lower and upper limits regulated by the Local Taxes and Fees Act. Irrespective of the relative freedom granted in determining the rates (taking into account the specific characteristics of the region and the goals set by local authorities), the changes in the tax rates of local taxes in a given jurisdiction (horizontal dynamics) are insignificant. The difference in the tax rates on the vertical, i.e. between the regions, is also minimal. The rates are most often averaged between the upper and lower limits, and in none of the cases are fixed at one of these limits.

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<sup>2</sup> Note that the ratio between revenues from property taxes and GDP in Bulgaria is 2.5 times lower than the EU average, and the ratio revenues from property tax / total revenues in the public sector is 2 times lower than the EU average. Within the EU, the payment of property tax deducts about 3% of the disposable annual income, and in our country the values of the same indicator are below 0.5%.

*Thirdly*, the financial autonomy of the Bulgarian municipalities is highly limited, as evidenced by the low relative share of the local own revenues in the GDP and the ratio of local tax revenues / tax revenues in the public sector. This fact, as well as the relatively low fiscal burden of the local taxes, does not motivate entrepreneurs and natural persons, to relocate their activity or to migrate because of the differences in the absolute amount of the tax liability.

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**Editorial address:**

2, Emanuil Chakarov street, Svishtov 5250  
Prof. Andrey Zahariev, PhD – editor-in-chief  
☎ (+359) 889 882 298  
Deyana Vesselinova – Technical Secretary  
☎ (+359) 631 66 309, e-mail: nsarhiv@uni-svishtov.bg  
Albena Aleksandrova – computer graphic design  
☎ (+359) 882 552 516, e-mail: a.aleksandrova@uni-svishtov.bg

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