



Original Contribution

TAX REVENUE POTENTIAL IN BULGARIAN MUNICIPALITIES

E. Mutafov*

Department of Regional Development, Faculty of Economics, Trakia University,
Stara Zagora, Bulgaria

ABSTRACT

All Bulgarian municipalities provide public services to their population. Some of the services are financed through subsidies by the central government, but others are financed by their own revenues. In order to have financial stability, it is necessary to have sufficient revenues in the municipal budgets. One of the main revenues with a big share is from local taxes. The purpose of this article is to assess whether municipalities in Bulgaria are using their tax revenue potential and whether there are any missed revenue opportunities. The focus of the analysis is on the collection of local taxes and an assessment of the level of tax rates in the municipalities. The conclusion provides recommendations for changes in the tax policy at the local level led by the municipalities.

Keywords: tax revenue, collection rate, property tax

INTRODUCTION

In Bulgarian municipalities, public services are provided at the local level, which depend on their own financing. In some of them, the share of own revenues is the critical 5-10% of total revenues, while the share of transfers from the central budget complements their needs. This shows a high dependence of local authorities on the central government and, accordingly, less authority to conduct various policies at the local level. The question arises whether the number and volume of services provided is adequate to the needs of the local population in the given municipality? This question is dictated by the fact that the transfers from the central budget are for precisely defined activities and this does not give the municipalities sufficient powers to allocate these funds for precisely needed services. A number of authors, not only in Bulgaria, confirm similar problems with financing and access to the necessary public services and their technological progress (1, 2). With the available resources, it is necessary to provide more, better-quality public services tailored to the needs of citizens (3). The importance of public services being provided by

municipalities is determined by the principle of subsidiarity, which states that public services must be provided from the closest level of government to the citizens and to ensure that decisions are taken at the closest possible level to the citizens (4). In this way, there would be better access, quality, efficiency and provision of the necessary services.

Once the need for specific services at the local level is clear, the main question is related to financing and whether the municipalities in Bulgaria can generate enough revenue in their municipal budgets. A major part of the revenues in the Bulgarian municipal budgets are related to local taxes. Some of them have a greater contribution, others not so much, but it is a fact that the revenues from local taxes and fees are the basis of the revenue part of the local budgets with an average share of about 22% of their own revenues in the municipalities (5).

METHODS

This article examines a number of metrics relevant to tax potential. Such are:

- Share of revenues from local taxes of all revenues in municipalities

The purpose of this indicator is to provide information on the degree of influence of local taxes and fees on the autonomy of municipalities.

*Correspondence to: Emil Mutafov, Department of Regional Development, Faculty of Economics, Trakia University, Stara Zagora, Student Campus, emil.mutafov@trakia-uni.bg, +359888949174

The following formula is used for the calculation:

$$M_{TF} = \frac{C_{ATF}}{I_{MB}} \times 100\%$$

where:

M_{TF} – share of municipal revenues

C_{ATF} – total revenues from local taxes

I_{MB} – total revenues in the municipal budget

- Potential opportunity to maximize certain tax revenues

For this purpose, it is foreseen that each municipality will accept the maximum tax rate (for example, for the Property tax, it is 4.5 per thousand) and will be able to achieve 100% collection.

The calculation is based on the formula:

$$C_{MAX} = T_{CUR} \times \frac{100\%}{T_C} \times \frac{T_{MAX}}{T_{CUR}}$$

where:

C_{max} – the maximum tax potential

T_{cur} – current tax revenue

T_c – current tax collection

T_{max} – maximum tax rate of tax

T_{cur} – current voted tax rate in a municipality

This formula calculates the tax potential in real value (BGN).

RESULTS

Firstly, it is necessary to specify that for the overview of the municipalities in Bulgaria, they will be divided according to the population into five groups, as follows **Table 1**:

Table 1. Division of municipalities by population, number

Division of municipalities by population											
Groups		2019	Average population in 1 municipality	2020	Average population in 1 municipality	2021	Average population in 1 municipality	2022	Average population in 1 municipality	2023	Average population in 1 municipality
1	Up to 10 000	133	5 657	132	5 684	133	5 593	142	5 422	142	5 420
2	10 000 - 49 999	108	20 980	109	20 969	108	20 719	102	21 095	103	21 307
3	50 000 - 99 999	15	69 872	15	69 289	15	68 343	13	69 606	12	70 790
4	above 100 000	8	194 541	8	191 608	8	190 606	7	191 561	7	192 122
5	Capital	1	1 328 790	1	1 308 412	1	1 307 439	1	1 280 334	1	1 286 965
Total		265	26 232	265	26 100	265	25 807	265	24 331	265	24 323

Source: Author's visualization based on data from the National Statistical Institute (NSI), (6)

From the data shown in **Table 2**, it is clear that during the considered period, there was a decline in the share of revenues from local taxes in the municipal budgets compared to their total revenues. A directly proportional relationship is observed between the size of municipalities by population and the share of revenues from local taxes, namely, the smaller the municipality, the smaller the share of revenues from the total

income. Sofia in general ranks first in terms of this indicator, and there it reaches values of around 22-25% during the considered period of five years. There is also a downward trend in this indicator for the considered period, with the most noticeable difference in large municipalities with a population of more than 100,000 people, where the share of local tax revenues decreases by six percentage points.

Table 2. Share of revenues from local taxes in relation to total revenues, %

Groups of municipalities according to population	2019	2020	2021	2022	2023
up to 10,000	5%	5%	5%	4%	4%
10 001 - 50 000	8%	8%	8%	7%	6%
50 001 - 100 000	10%	9%	9%	9%	8%
over 100,000	16%	14%	13%	13%	10%
Capital	22%	24%	25%	22%	22%

Source: Data from Ministry of Finances (7)

Collectability in the municipalities from the Property tax is an important indicator of the work of the municipal administrations and also of the extent to which the tax culture of the local population is at the required level. Taxpayers would be more willing to pay what they owe if

they develop a sense of ownership for the municipality they live in and see it as an institution that fights for their better services and living conditions. Collectability from Property tax (tax on real estate for the period from 2019 to 2023 inclusive is presented in **Table 3.**

Table 3. Share of local tax revenues from total revenues, %

Groups of municipalities according to population	2019	2020	2021	2022	2023
up to 10,000	72,81%	71,69%	74,96%	75,55%	76,79%
10 001 - 50 000	76,73%	75,55%	78,68%	79,50%	81,38%
50 001 - 100 000	79,61%	78,10%	81,83%	83,20%	84,11%
over 100,000	77,98%	80,42%	84,84%	83,07%	84,32%
Capital	72,88%	76,26%	78,22%	78,75%	78,97%
Average Bulgaria	74.78%	73.73%	76.99%	77.64%	79.11%

Source: Data from Ministry of Finances (7)

According to the data presented regarding the collection of Property tax, the following conclusions can be drawn. An increase in the collection rate is observed in the larger municipalities in the Republic of Bulgaria, with the exception of the capital. There is somewhat low collection from the group of municipalities with a population of over 100,000 people. It is noteworthy that at the end of the considered period, an increase in the collection of this tax was observed in all groups of municipalities, which indicates better organization and transparency in the conduct of tax policies by the local authorities in Bulgaria. Only in 2020 there was a slightly lower collection rate in small municipalities, which can be explained by the force majeure circumstances surrounding COVID-19.

In order to calculate the possible potential for increasing revenues from local taxes, it is necessary to assume that all 265 municipalities in Bulgaria will accept the maximum tax rate for real estate tax and will realize one hundred percent collection from the population. In this situation, the following results can be obtained.

Figure 1 provides information on the potential increase in tax revenues in the municipalities in the Republic of Bulgaria in the event that full collection from Property tax is successfully realized and also the municipalities accept the maximum tax rate of 4.5 per thousand allowed by law. The data shows that the increase would be about two to four times in most municipalities, but there are also some where this increase would reach up to seven times compared to the current Property tax revenues.

In municipalities in Bulgaria, there is a tendency for lower tax rates of this tax in large municipalities, and out of 265 municipalities, only 9 have voted for the maximum allowed tax rate. This makes these municipalities the closest

placed to realize their revenue tax potential from Property tax, since they only have to realize full collection from taxpayers.

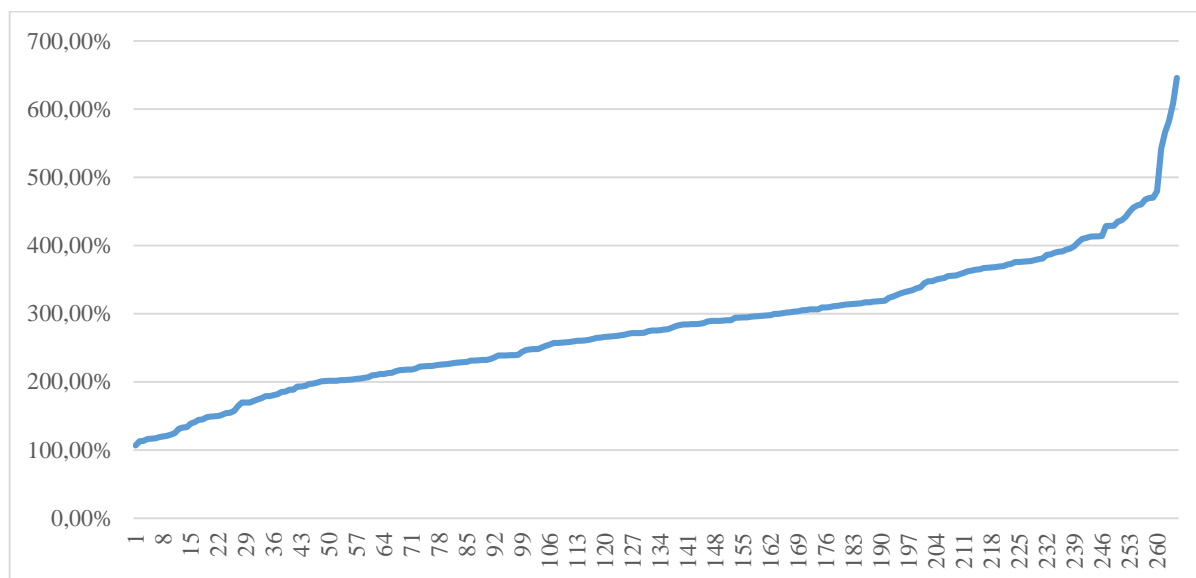


Figure 1. Potential for increasing own revenues in municipalities in 2023, %

Source: Own calculations based on a database from the Ministry of Finance, NSI and IME (8)

CONCLUSION

In conclusion, the following conclusions could be drawn based on the presented data and their analysis:

- The share of tax revenues in Bulgarian municipalities is decreasing relative to their total revenues, which means less financial independence;
- The average collection in the municipalities from Property tax is below 80%, but it shows a constant growth in the years of the considered period;
- The collection rate from Property tax in small municipalities is lower and there is a directly proportional relationship between the size of the municipality by population and the collection rate;
- In many of the municipalities, no attempt is even made to come close to realizing their revenue tax potential due to the fact that only 9 municipalities have a voted maximum tax rate for Property tax;
- A large part of the municipalities would increase their revenues between 2 and 4 times, and some even more, by adopting a maximum tax rate and full collection of Property tax.

Changes and revisions of local tax policies are necessary in most municipalities in Bulgaria, in connection with increasing the tax culture of the population, as well as incentive measures to increase their empathy and recognition of the municipality as its representative. Thus, the willingness to pay the due taxes would be greater, which would increase revenues and increase the financial independence of the municipalities. All these actions would lead to better and higher-quality public services and a higher standard of living for citizens.

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