HOW TO INCREASE LOCAL REVENUE IN BULGARIA - MISSION (IM)POSSIBLE?

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Abstract The topic dedicated to local revenue growth in Bulgaria has been relevant since the start of the decentralization process. Nearly twenty years after the democratic changes, local authorities are experiencing severe funding shortages and difficulties in implementing their capital programs. The topic is becoming more relevant due to the COVID-19 pandemic and the current economic situation - rising inflation and problems related to the revenue collection. The purpose of this article is to present a retrospective analysis of the dynamics of the local revenue in Bulgaria and to calculate key financial indicators. The results are compared with the European Union average. The study presents the main results of the Program for fiscal decentralization in Bulgaria. Based on the analysis of the European practice, local revenue structure in Bulgaria and main fiscal indicators, the possibilities for local revenue growth are presented.

Keywords: "decentralization, local revenue, tax revenue, shared taxes, Bulgaria growth.

JEL Classification: H24, H71, H77

INTRODUCTION

Fiscal decentralization in Bulgaria has been started in 2002 with the adoption of the first Program for Implementation of the Financial Decentralization Strategy. Today, twenty two years after the beginning of the reform, municipal budgets continue to be underfunded and the share of the local tax revenue in total tax revenue continue to be low. In recent years, the municipalities have been given new responsibilities, but the financial resources for the implementation remain scarce. Local capital expenditures are financed primarily with the funds from the European programs, and municipal investments financed with European funds reach around 80% of the total local investments. The crisis caused by COVID-19, rising inflation in Europe and in Bulgaria, as well as deteriorating economic conditions pose new challenges to the local and regional authorities. Subnational governments increased

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their expenditure levels as a result of the socio-economic crisis arising from COVID-19. In particular, they anticipate significant expenditure increases in social services and benefits, support to SMEs and the self-employed, and public health. More moderate expenditure increases are expected in education, information and communication technologies, adapting local public transport, adapting administrative services and public order and safety. Municipalities, and especially regions, reported large decreases in tax revenue. Among municipal respondents, 86% anticipate a moderate to large decrease in their tax revenue. No category is spared: small and large municipalities are affected alike (OECD, 2020, p. 18).

This article is devoted to the study of the possibilities for local revenue growth in Bulgaria. The topic is on the agenda of the public discussion and relevant for both researchers and politicians. In a period of deepening financial crisis, declining GDP, rising inflation and potential energy crisis, the issue of increasing municipal revenue is becoming very important.

The tasks we set in the present study are: presentation of the structure of local revenue in Bulgaria; preparation of an analysis of the dynamics of the municipal revenue for the period 2003-2020; study of the possibilities for increasing the local revenue and proposals for the introduction of new local revenue and optimizing the collection of the municipal revenues. The study summarizes the most significant results of the reform towards fiscal decentralization in the country.

It this research we are state that a significant growth in the local revenue in Bulgaria can be achieved through the introduction of the shared tax revenues.

The structure of the article is as follows: Introduction; Characteristics of the local revenue in Bulgaria and main results from the fiscal decentralization process; Analysis of the local revenue for the period 2003-2020; How to increase the local revenue and Conclusion. The financial data used in the survey are from the Ministry of Finance and EUROSTAT.

2. CHARACTERISTICS OF THE LOCAL REVENUE AND MAIN RESULTS FROM THE FISCAL DECENTRALIZATION PROCESS IN BULGARIA

The design of the local revenue system has developed significantly since the democratic changes. Based on legislative changes, municipalities are expanding their revenue powers. Since 2003, local authorities have been able to determine the basis and amounts of local fees listed in the Local Taxes and Fees Act and may introduce new fees with an ordinance of the municipal council. In 2005 the Local
Debt Act regulates the possibilities and the way of debt assumption as well as the regulations for the types of local debt.

In 2007 the Constitution of the Republic of Bulgaria was amended, and the municipal councils were given the power to determine the amount of local taxes under conditions, order and within the limits established by the law. For the first time, municipalities receive real tax powers. Local authorities set tax rates in accordance with the legal restrictions, but do not have the competence to determine the types and tax base of local taxes.

Significant changes in the legislation related to municipal revenue and expenditure were observed in 2014, when the Public Finance Act was adopted. The law aims to strengthen the interaction between the legislature, the executive, the judiciary and municipalities to pursue prudent fiscal policies while respecting the budget deficit and consolidated debt benchmarks established for the European Union by the Maastricht criteria. The law transposes the main provisions of the Council Directive 2011/85 / EU of 8 November 2011 on requirements for budgetary frameworks of the Member States and Council Regulation (EC) № 479/2009 of 25 May 2009 implementing the Protocol. for the excessive deficit procedure. The law envisages opportunities for the compiling a program municipal budget. It further the Public Finance Act develops the set of fiscal rules for the subsector “Local government”. A medium-term goal is set for adherence to a balanced budget balance on a cash basis, regulates the procedure for compiling the medium-term budget forecast, the budget forecast for local activities of municipalities and others. For the first time, legislation is being introduced regulating municipalities in financial difficulty and the granting of the interest-free loans for financial recovery (Aleksandrova, Kalcheva, 2021).

Currently, the tax revenue received in the budgets of Bulgarian municipalities are: Immovable property tax, inheritance tax, donation tax, property transactions tax, vehicle tax, patent tax, tourist tax, tax on taxi transport of passengers, other taxes determined by law. The typical municipal fees are: for household waste, for the use of markets and marketplaces, for technical services, for administrative services, for the purchase of graves, for owning a dog, etc.

After the democratic changes, the system of state transfers in Bulgaria is also changing significantly. Until the end of 1992, a centralized approach was used to determine subsidies. The amount of the subsidies is formed as the difference between the normatively valued expenditures of the municipalities and the estimates of the expected revenues. Any excess of municipal revenues is seized by the Ministry of Finance. Municipalities with a negative operating
result receive a supplementary transfer, and municipalities with a positive operating balance provide growth in the revenue. This approach contradicts the idea of the decentralization and municipalities have no motivation to develop financial independence.

Since 1993, the state transfers (subsidies) have consisted of two parts - a general subsidy and a targeted investment subsidy. The method for determining the amount of subsidies for municipalities is not regulated by law in practice, the decision is taken ad hoc by the Ministry of Finance. In the distribution of the total subsidy between the municipalities the methodology developed by the Ministry of Finance is applied, which is based on objective criteria, taking into account the needs of the municipalities - number of students, residents, socially disadvantaged, etc. The second element of the state transfers for local authorities (active till 2003) is the shared taxes. There are two main taxes, which the state share with the municipalities - 50% of the revenue from the personal income tax and municipal tax, representing a 10% rate on corporate profits. Revenue from shared taxes are distributed among municipalities based on their origin. Municipalities also receive the full amount of profit tax from a companies with 50+ percent municipal participation.

As a result of the Concept and Program for financial decentralization adopted by the Bulgarian government in 2003, a new approach for determination and distribution of the state transfers is adopted. The new mechanism for determining subsidies is based on the following formula: 

\[ C = C_1 + C_2 + C_3 \]

where: 

- \( C_1 \) is the amount of the total subsidy (for the state delegated activities);
- \( C_2 \) – the amount of the total equalization subsidy (unconditional grant);
- \( C_3 \) - the amount of the targeted subsidy for capital expenditures. The shared revenues for the municipalities are eliminated.

In 2003, a new principle of financing municipalities was introduced. Budget activities are divided into delegated by the state and local. The financing of the activities delegated by the state is provided by funds from the shared personal income tax and a general supplementary subsidy, and the local activities – from the local taxes, the fees, the non-tax revenues and the general equalization subsidy. Financial decentralization was started in 2003 with an incomplete financial resource for the maintenance of the activities delegated by the state, but at the end of the year the state provided with additional funds the full standards for the maintenance of the activities delegated by the state. (Ministry of finance, 2003, p. 97).
3. Analysis of Local Revenue for the Period 2003-2020

As a result of the ongoing reform towards fiscal decentralization, the design of the local revenue for the period is changing. Shared revenues are eliminated, some tax revenue are eliminated and new ones are included in their place. Despite the inclusion of the new local taxes, there is no significant change in the structure of the local revenue. In 2003, the revenues from the shared personal income tax are still part of the municipalities' own revenue. In 2004, PIT revenue became part of the total amount of the government transfers. In 2008 the revenue from PIT are centralized and revenues are not transferred / shared to the municipalities.

Graph 1. presents the change in the structure of local revenue for the period 2003-2020.

Graph 1. Structure of the local revenue 2003-2020 (BGN thousand)

During the period, the state transfers present the most significant share of the local revenue and vary between 59%-68%. An exception in 2003 is observed, when the tax revenue represent 41% from the total revenue (due to the share taxes) and revenue from state transfers present 39%.
It should be noted, that a significant part of the state transfers is conditional, ie. local authorities do not have the right to determine expenditure areas on their own. During 2020, the proportion of the unconditional state transfers to total state transfers received by local government is around 7% and the proportion of the local government revenue from local resources by total revenue is around 32%.

Tax revenues increase during the study period. We observe exception in 2009, when the global financial crisis affected tax collection and reduced revenue with 15%. The crisis affects non-tax revenues, but does not significantly affect the collection of fee revenues.

As at 31/12/2020 the structure of the local revenue is as follows: tax revenue – 14% from the total local revenue; local fees -11 % from the total local revenue, non-tax revenue – 6% from the total local revenue; state transfers – 68% from the total local revenue. It should be stressed, that the amount of state transfers includes all extraordinary transfers that municipalities receive during the budget year.

Tax revenues, the basis for financial independence of the local authorities, deserve special attention. Graph 2 presents the structure of the tax revenues for the study period.

**Graph 2. The structure of the tax revenue – 2003-2020 (BGN million)**

Source: Ministry of Finance, own calculation

*Note: the graph does not present revenues from tax on donations and inheritance tax due to its negligible value*
During the period, the municipal tax (2003), the profit municipal tax (2003) and the road tax (2005) were revoked, but the patent tax (2008), the tourist tax (2010) and the tax on taxis transport (2011) were included.

However the introduction of the new local taxes, the additional tax revenue are very low. The revenues from the patent tax present about 1% of the local tax revenue, and the revenue from the tax on the taxi transport and from tourist tax - about 2%. In addition, not all municipalities receive revenue from the tax on taxi transport.

The most significant volatility is observed in connection with the property transaction tax revenue. In 2008 the revenues reported a significant peak due to the lively real estate market and the large number of real estate sales transactions. The revenue from immovable property tax provides stable revenues that increase over the years, unlike the revenue from property transactions tax, which are extremely variable and sensitive to changes in the economic situation. (Nenkova, Kalcheva, 2018, p. 99).

A steady upward trend during the period reported the revenue from vehicle tax. Part of the municipalities report tax rate of the vehicle tax increases. As at 31/12/2020 the structure of the local tax revenues is as follows: immovable property tax – 32%; vehicle tax – 33%; property transactions tax – 32%; patent tax – 0.9%; tourist tax and tax on taxi transport – 1.5%; inheritance tax and tax on donations – 0.05%.

We can summarize that the most significant local taxes are only three and their income present 97% from total local tax revenue. The inheritance tax and donation tax have very low profitability and their importance in municipal budgets is symbolically.

Although the municipal tax revenues increase in absolute value annually, they account for a modest share of GDP and in 2020 reach 0.9%. Graph 3 presents the indicator of local revenue to GDP for the countries in European Union for the period 2012-2018.

The Graph 4 presents the value of the indicator for 2020. We consider the probability COVID-19 crisis impact on the indicator and we present the data separately.
Based on the presented information, we can outline two groups of countries: countries with low tax revenue and correspondingly lower level of the fiscal decentralization and countries with a traditionally decentralized system and high levels of municipal tax revenue. The first group includes Sweden, Denmark, Finland (the ratio is over 10%), Italy, Poland, the Czech Republic, Croatia, Latvia and France (the ration is above the EU average of 4.1%). The second group includes Slovenia, Spain, Germany, Portugal, Belgium, Hungary, Luxembourg (1.6% -2.6%) and the Netherlands, Austria, Greece, Bulgaria, Romania, Slovakia, Cyprus, Lithuania, Estonia and Ireland. (the ratio is below 1.5%). During the study period, the indicator for Bulgaria did not change significantly and varied between 0.8 and 0.9%, which puts Bulgarian municipalities in one of the last places in terms of share of tax revenues in GDP. Poland, the Czech Republic and Latvia (CEE countries) have achieved a high level of tax autonomy of local authorities.
The Graph 4. presents the indicator of local tax revenues to GDP for 2020.

*Graph 4. Share of local tax revenues in GDP for 2020 (EU 27)*

In 2020, the values of the indicator does not change significantly. The EU average decreased from 4.2 to 4.1. Belgium, Germany, Ireland, France, Italy, Luxembourg, Hungary and Poland reported declining. The main reason for the decline in local tax revenue is the COVID-19 crisis. States, regional and local authorities were accepting tax breaks for the businesses and citizens, leading to the declining tax revenue. Bulgaria ranks last in terms of the value of the indicator. Estonia, Ireland, Cyprus, Latvia, Malta, Slovakia and Romania have lower values.

It should be noted that some of these countries have higher GDP and a smaller share of the local sector. In addition, the share of local revenue in GDP for Bulgaria in 2020 is 7.7%, and the EU average is 11.7%.

Other indicator for estimation of the local autonomy of the municipalities is Local autonomy index. Local autonomy is a highly valued feature of good governance. The continuous attempts of many countries to strengthen the autonomy of local government shows the importance given to decentralization and reinforcing competences at the lowest level of a state. The eleven variables measured are located on seven dimensions and can be combined to a “Local Autonomy Index” (LAI). (Ladner et all, 2021, p. 1).
One of the variables evaluated is Fiscal Autonomy, which can vary in the range 0-4 (0 local authorities do not set base and rate of any tax; 1 local authorities set base or rate of minor taxes; 2 local authorities set rate of one major tax (personal income, corporate, value added, property or sales tax) under restrictions stipulated by higher levels of government; 3 local authorities set rate of one major tax (personal income, corporate, value added, property or sales tax) with few or no restrictions; 4 local authorities set base and rate of more than one major tax (personal income, corporate, value added, property or sales tax). Estimation for Bulgaria is 1, and average ratio of the countries presented in the study is 1.64. Finland, Germany and Sweden stand out with the highest fiscal autonomy.

The second variable related to the fiscal autonomy of local governments is Financial transfer system. The variation of the variable is between 0 and 3 (0 conditional transfers are dominant (unconditional = 0-40% of total transfers); 1 there is largely a balance between conditional and unconditional financial transfers (unconditional = 40-60%); 2 unconditional financial transfers are dominant (unconditional = 60-80%); 3 nearly all transfers are unconditional (unconditional = 80-100%). Estimation for Bulgaria is 0 due to the high dependance of the municipalities of the state transfers. The significant part of the transfers is conditional. The average value for the countries for 2020 is 1.6. The local authorities with low dependence on state transfers are in Croatia, Finland, France, Norway, Portugal and others.

The next interesting variable is financial self-reliance. It is varied between 0 and 3 (0 own sources yield less than 10% of total revenues; 1 own source yield 10-25%; 2 own sources yield 25-50%; 3 own sources yield more than 50%). Estimation for Bulgaria is 2, and average value of the variable is 1.94. The countries with the highest value are Finland, France, Greece, Norway, Sweden and others.

The specified variables are only some of the variables that form Local autonomy index. The other variables are: institutional depth, policy scope, interactive rule, effective political discretion, borrowing autonomy, organizational autonomy, self-rule. Local Autonomy sums up all the variables. The average LAI for 2020 is estimated at 21.46. The data shows an increase of local autonomy between 1990 and 2020, especially in the Central and Eastern European countries. Countries with a high degree of local autonomy include the Nordic countries, Switzerland, France, Portugal and the USA (Ladner et all, 2021, p.1).
The countries with the highest value of the indicator in the EU are Finland (32.35), Sweden (28.29), France (27.84), Portugal (27), Spain (26.45). Estimation of Local autonomy index for Bulgaria is 21. There is no change in the ratio for the period 2014-2020. On the one hand, the country indicator is close to the average for the survey countries. On the other hand, variables such as the Financial transfer system and Fiscal Autonomy show the strong dependence of municipalities on state transfers and the low levels of tax local revenue. In addition, the unchanged value of the index means that there are no new steps towards fiscal decentralization in Bulgaria.

In recent years, the crisis caused by the COVID-19 pandemic, the increase in the minimum wage, rising inflation and the need for urgent investment in the water sector and municipal road infrastructure have put on the agenda the issue of the increasing municipal revenue.

Based on the above, we can summarize that Bulgarian municipalities are highly dependent on the state transfers, and this limits their spending policy and independence. Revenue from the local fees are conditional and cover the cost of the local services provided. Municipal revenue can be increased by changing tax revenues and improving the collection of municipal revenues.

4. **HOW TO INCREASE THE LOCAL REVENUE**

1.1. **Tax revenue**

*Shared Personal income tax*

As we already mentioned, tax revenues are an essential element of the revenue system of local authorities. They provide the highest level of autonomy and allow the determination of an independent municipal expenditure policy. In the budgets of the European countries, local tax revenue are formed by the tax revenues, which municipalities determine within certain limits and by tax revenues shared by the state.

Shared tax systems are very widespread in Europe. In these schemes, sub-national governments receive a percentage of the receipts of a State tax via precise mechanisms, with or without localisation (principle of “fair return”). In this case, sub-national governments generally have little or no leeway (Dexia, 2008, p. 9).

According to the OECD (2018), the local and regional authorities in Germany, Poland, Portugal and Slovenia receive revenue from share taxes. As
some authors (Mikavilov) believe that shared taxes are close to government transfers, we should draw the main dividing lines.

According the OECD report we can use 4 criteria to distinguish the shared taxes and typical state transfers. The criteria are as follow:

1) Risk sharing: Is the amount of revenue allocated to the sub-central level strictly related to total tax revenue (e.g. as a given share of annual tax revenue), i.e. does the sub-central level of government fully bear the risk of tax revenue slack and fluctuations?

2) Un-conditionality: Is sub-central government free to use the revenue allocated, i.e. are the revenues unconditional (non-earmarked)?

3) Formula stability: Is the revenue share between the central and the sub-central government predetermined in advance and not changed in the course of a fiscal year

4) Individual proportionality: Is the revenue share of each sub-central government strictly related to what it generates on its own territory, i.e. is there no horizontal redistribution or fiscal equalisation across sub-central governments?

We are talking about strict tax sharing, if an arrangement fulfils all four criteria and we can add the revenue to the local tax revenue. If an arrangement fulfils the first three criteria but not the fourth (individual proportionality), it will be referred to as tax sharing. If an arrangement does not fulfil the first three criteria, it will be referred to as intergovernmental grant. (Blöchliger H. and Petzold O., 2009, p.4-5).

Given the structure of the local revenue in Bulgaria and given the shared revenues they municipalities have received in the past, the introduction of shared tax revenue is a good alternative for local revenue increases.

Revenue sharing can be done in two ways: a) transfer of a part of the revenues from the respective revenue source, which arise on the territory of a given territorial unit; (b) the transfer of part of the revenue from the relevant revenue source, which is collected at national level and distributed among local authorities under a specific scheme, on the basis of certain indicators and criteria. The first method of sharing is known as strict tax sharing. The second method uses equalization criteria related to the number of inhabitants of a given local territorial unit, area of the municipality, etc.

When applying the criterion for distribution of the place of generation of the tax base, there is a risk of serious fiscal differences between the individual
municipalities. The reason for this is that on the territory of large municipalities there is higher employment, higher population, higher tax base. Most of the revenues from shared taxes will remain on the territory of large municipalities with high own revenues, and small municipalities will add minimal revenues to their budgets. To avoid this risk, various mechanisms are applied, including equalization criteria, for the distribution of shared revenues. Providing shared revenues in the local budgets is seen as a step towards successful fiscal decentralization.

For the purposes of the study, we will consider of revenue sharing from PIT. We accept that the revenue will be distributed among the municipalities according to additionally accepted criteria, which allow overcoming serious fiscal imbalances. The set of additional criteria is not the scope of this study.

Based on the shared revenue, local authorities can access to the highest income taxes with a flexible tax base. Tax sharing overcomes the problem of creating serious fiscal differences between the jurisdictions. Local revenue increases through shared taxes does not imply increasing the tax burden on the local population. In general, local authorities are free to determine how shared revenue is spent.

In 2020, the total revenue from personal income tax amount to BGN 4,183,835 thousand. Figure 5 presents four options for percentage sharing of tax revenues with municipalities. In the fourth option (sharing 30% of revenues), the total amount of the shared tax revenue exceeds the total amount of the local tax revenue.

*Graph 5. Options for sharing PIT (thousand BGN)*

*Source: Ministry of Finance, own calculations*
The **Revenue** from personal income tax is suitable for sharing with local authorities because:

- Individuals live and work most often on the territory of the same municipality and the application of this tax avoids the export of the tax burden
- Tax revenues reflect the economic situation, as a result of which there is tax elasticity
- The use of the tax as a shared local tax does not create obstacles to the functioning of the single internal market and has nothing to do with international trade (Naydenov, 2012, p. 92).

Based on the transitional practice over the years and the availability of shared income from PIT in 2003, we believe that this option is suitable for local revenue growth in Bulgaria. In the practice of the EU countries there is a significant growth in municipal revenues on the basis of shared revenues.

**Surcharge (Personal income tax)**

In a number of countries, local authorities can determine the so-called "surcharge", "additional tax" or a percentage above the rate set by the state. "Additional taxes" provide the municipalities with the fiscal autonomy, as they independently determine the amount of the allowance. The central government defines the tax base and collects both its own revenues and those of the local government. EU countries where local and regional authorities have the right to impose additional rates are Belgium, Croatia, Italy, Denmark, Norway, Sweden, Finland and Iceland.

For instance, the Flemish municipalities have a very large number of available tax instruments, ranging from surcharges on federal personal income tax and regional property tax revenues to over 120 different purely local taxes, fees and user charges Geys, B., and F. Revelli. (2011), p.411). Corporate income tax and value added tax in present day Belgium are federal taxes; personal income tax is also mainly federal, but regions (and municipalities) are permitted to add positive or negative surcharges; the immovable property tax goes to the regions, which set its base rate although the municipalities may.

Both local taxes are surcharges determined only by the municipalities: - the local income tax is a surcharge on the federal income tax levied on individuals; the rate of the surcharge is between 0 and 10% and, in practice, is a tax on labor income (savings income is taxed separately); and - the local property tax is a
surcharge on the regional property tax; its base, also defined at federal level, is an imputed income on immovable property; this tax is levied on all taxpayers – individuals, companies, charities – on the basis of the location of the property (Ge´rard, M., H. Jayet, and S. Paty. 2010, 337)

In Italy, Regional taxation systems are here defined in terms of the level of the average rate of the regional surcharge on the tax on personal income (Imposta sul reddito delle persone fisiche [IRPEF]), over which regional authorities in Italy have fiscal autonomy, along with the number of income brackets in each region (Del Bo, C. F. (2018), p.60).

There are two possibilities for imposing surcharge - on the basis of "residence" or "place of work". For example, if municipalities have the right to impose a PIT surcharge, the legislator must determine which municipality will impose and receive the tax - the one where the person has a permanent address or the one where the person works. The studied practice in Europe shows that traditionally the revenue from the tax allowances go to the municipality where the person has a permanent address. In Italy, for example, people must first register in the municipality where they live and then be able to work.

The opportunity for the local tax revenues increases in Bulgaria is to impose a tax surcharge on personal income tax. In Bulgaria, the idea of introduction of the surcharge on personal income tax has already been discussed. This idea includes the possibility for the municipal council to set a tax surcharge between 0.5% and 2% based on the income of individuals, at the expense of reducing the central rate of personal income tax (personal income tax is a flat and it is 10%). In other words, if the local surcharge tax is a maximum of 2%, the PIT rate will be 8%. The additional municipal revenue from surcharge 2% shell be around BGN 83,676,000. This amount is lower compare with the alternatives for the shared revenues. One of the risks posed by this proposal is the deepening of the fiscal imbalance between the few rich municipalities and the many poor municipalities. Tax revenue will be low in sparsely populated municipalities with limited jobs and will lead to minimal revenue growth.

According to European Commission (2022) disparities between and within regions remain high in Bulgaria. In 2019, GDP per capita was largely below 50% of the EU average across all regions, except in the southwest region that includes the capital city. Closing the gap in regional disparities by boosting the economic potential of Bulgaria’s less developed regions would contribute to the country’s long-term sustainable and inclusive growth.
Another problem in the implementation of this proposal is way of the imposed of the surcharge - at the place of residence or at the place of work of the person receiving the income. In Bulgaria, there is a practice of people from small municipalities to work in large neighboring municipalities. This practice shifting the tax burden and not being able to achieve proportionality of taxation.

**Change in the tax base of Immovable property tax and base of the Property transactions tax**

The tax base of the immovable property tax is the tax assessment. The tax assessments of the properties in Bulgaria have not been updated for years and lags significantly behind the market ones. The last update of real estate tax assessments was prepared in 2006. Since then, market prices have increased many times, and the difference between market and tax assessments is more than significant. The update of the tax bases will lead to increase of the local tax revenue.

The update will lead also to revenue from property transactions tax growth. Currently, the actors in the real estate properties market have choice for the implementation of the deals. They can choose the tax base or market base in connection with the payment of the property transactions tax. Often, they prefer the lower tax base. After amendment of the tax base, the revenue from property transactions tax shell be higher.

**1.2. Other opportunities for local revenue growth**

Municipalities may introduce measures to improve the collection of property taxes, some of which are: full review of arrears and identification of bad debtors; sending invitations for implementation; preparation of a plan for audits of large debtors; use of the services of a Private Enforcement Agent.

Municipalities applying tax rates in the low range can gradually increase the amount of taxes. Before such a step, however, an analysis of the social tolerance of the population must be prepared and its ability to pay higher taxes must be assessed.

Local authorities can optimize property income and revenue by renting out their properties at near-market prices, updating their contracts regularly and monitoring for bad debtors.

Revenues from municipal fees can be increased by increasing their amount or by introducing new fees. As fee revenues are targeted and generally follow the pricing of the service, a significant increase is difficult to justify. In
recent years, however, more municipalities are introducing new fees in order to improve urban conditions. An example of such fees is the introduction of a parking area in the city center.

According to The International Cooperation Agency of the Association of Netherlands Municipalities (VNG) due to insufficient capacities local governments in many countries face a resource mobilisation gap up to 80% or 90%. This effects the basic service delivery tremendously. Bridging the tax gap and increasing service delivery is only possible when two preconditions are met:

- First and foremost, a trustworthy and accountable local government must be in place. To increase revenue collection and improve service delivery, accountable local governments – ones that understand their main task as delivering good services in a customer-oriented manner to their citizenry – need to be in place.

- The second and equally important component is the citizens. It is crucial that they understand the importance of a constructive dialogue with their local government and are stimulated to participate and contribute to their city’s or regions planning and prioritisation processes.

Based on the prepared analysis we can confirm that a significant growth in municipal revenues can be achieved by introducing shared tax revenues. The introduction of a tax surcharge is not particularly suitable for the conditions in which Bulgarian municipalities operate, namely depopulation of municipalities and strong concentration of labor in the bigger municipalities. Updating the real estate tax base will lead to revenue growth, but it will be much lower compared to the introduction of shared revenue. The other proposed measures can be implemented and lead to a gradual increase in municipal revenues, but would not significantly change the structure of local revenue.
CONCLUSION

In recent years, the local and regional authorities in Europe have faced a number of challenges – the COVID-19 crisis, rising inflation, rising social spending. This puts on the agenda the research of the opportunities for the local revenue growth.

Municipalities in Bulgaria are traditionally high dependent on the government transfers and report modest tax autonomy. Although the local taxes are seven, the fiscally significant taxes are only three and form over 95% of the municipal tax revenue. Tax revenues account for less than 1% of GDP.

At the same time, spending needs, both in terms of current expenditures and in terms of capital investment, are growing. Based on the empirical research and historical research on the structure of the local revenue, we believe that a significant growth in tax revenues and increase of the fiscal independent of local authorities in Bulgaria, can be achieved by introducing shared tax revenue. If the state share 30% of the revenue from Personal income, the amount of total local tax revenues will be double. This approach is in line with European good practice and the European Charter of Local Self-Government. Other options, but with lower profitability, are the introduction of a tax surcharge, the updating of real estate tax assessments and the introduction of measures to improve collection.
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