

PATENT TAX IN BULGARIA - A FORM OF INJUSTICE TAXATION OF PHYSICAL PERSONS

Tsvetelina Nenkova¹, Nadya Nenkova²

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Abstract

The article highlights the main accents characterizing the nature of the patent tax. The advantages and disadvantages of taxing the income of natural persons and sole traders with patent tax and the reasons for the need for adequate changes in the organization and application of the patent system in the Bulgarian tax practice have been pointed out. On this basis, recommendations and conclusions are made.

Keywords: *patent tax, income, individuals, sole traders, tax system*
JEL Codes: *H25*

After achieving financial stability and the completion of the major structural reforms in the Bulgarian economy in the new conditions of development it was a new goal to be put for the tax policy – stimulating sustained economic growth in the country. In this sense, tax policy must be synchronized and to be subordinated to the goals and ideas of economic policy.

The tax policy implemented at a modern stage is also aimed at optimizing the tax forms and the units of the revenue system and in particular:

- applicable taxes and social and health insurance contributions;
- the technology of taxation;
- bodies and institutions exercising control.

The effectiveness of the tax policy underway depends on:

- the share of budget revenue accrued through taxes in the budget;
- the extent of collection of taxes and social and health insurance contributions;

¹International Business School, Botevgrad, Chief Assist. Prof. PhD, email: tsnenkova@ibsedu.bg

²New Bulgarian University, Sofia, Chief Assist. Prof. PhD, email: nenkova.nadya@gmail.bg

○ the share of GDP reallocated through taxes and social and health insurance contributions;

From this point of view, the subject of research in this article is the organization of the patent tax in our tax system. The aim is to discuss the issue of the need for the patent tax and the problems arising from the taxation of personal income in Bulgaria.

The patent tax is an annual amount payable by natural persons and sole traders whose annual turnover for the preceding business year is up to BGN 50,000. The specific amount of the patent tax is determined by the Municipal Councils within the limits specified in Annex 4 of the Local Taxes and Fees Act and depends on:

- of the type of activity pursued;
- of the functional type of the settlement;
- from certain natural indicators such as: net sales area in square meters per site, hotel category and number of rooms, type of restaurant and number of places of consumption.

The need for the introduction of the patent tax is related to the low collection rate of revenue and tax lowered control during the first years of transition from a centralized to a market economy.

The advantages when taxing the income of natural persons and sole traders with patent tax during the transitional period are the following:

- the magnitude of the patent tax is not affected by the final annual financial result.

Thus limiting the vicious practice in which small enterprises of sole proprietorship shall declare their annual income within the non-taxable income minimum and they do not pay the tax;

- the introduction of a patent tax guarantees rhythmic cash receipts in the municipal budget.

Disadvantages of the introduction of the patent tax in the national tax system are:

- firms of sole traders are not interested in documenting their business;
- the cost and revenue operations of companies subject to patent tax do not affect the amount of patent tax;
- the introduction of the patent tax system does not stimulate the legal increase in the production or trade activity of Sole Trade companies;

- companies are interested not to exceed the threshold of the annual turnover of 50 000 BGN. Otherwise, their final financial result will be taxed under a heavier tax regime under the Corporate Income Tax Act;

- the introduction of patent tax has a negative impact on the conclusion of employment contracts.

This is because the remuneration and contributions to compulsory social and health insurance are costs for the company, which does not affect the size of the patent tax. In order to reduce these costs, the managers of the companies subject to patent tax does not show in the payroll for wages actually earned or they hire workers and employees without concluding contracts.

With the strengthening of the market model of economic development, the need to change the organization of the taxation of the patent is due to the following reasons:

- optimizing the structure of revenue administration and the organization of tax forms, which has led to improved revenue collection;

- fulfillment of tax obligations by a larger part of individuals and increased financial control;

- a reduction in the overall tax burden and the need for natural persons to be placed under the same conditions of taxation.

The existing patent tax organization places taxpayers under different taxation conditions for the same income. Assuming that the three individuals receive the same income, and taxed by applying different tax systems: progressive-income, proportionate and patent it for annual income of 10 000 BGN. (after deduction of contributions for social and health insurance), the tax that must be paid for a certain activity (e.g. clocks and watch repair services) is the following:

- Under the Progressive-Income System implemented until 2008 (under Art. 48 of the APLL):

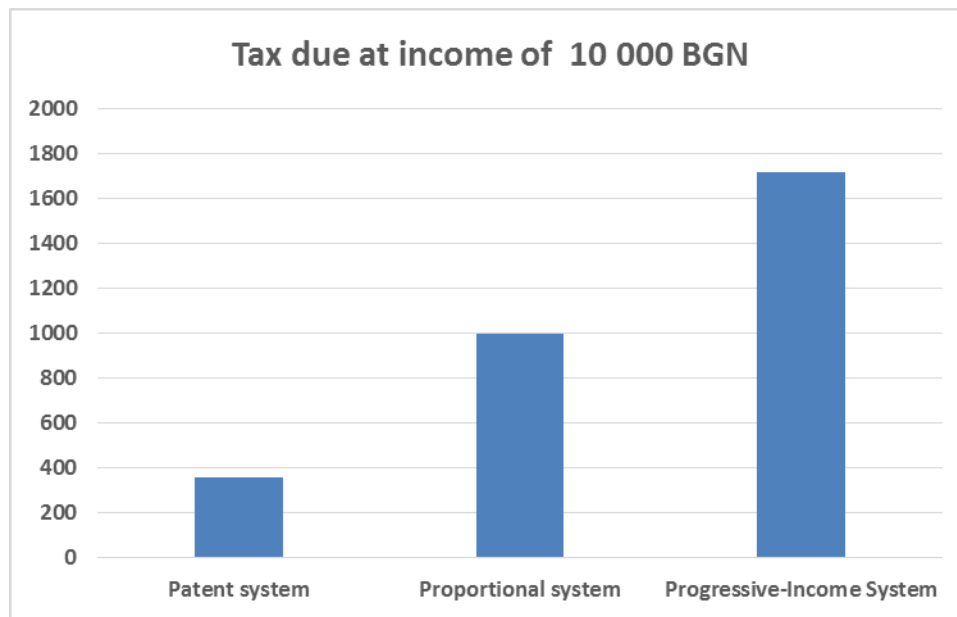
| Annual Income | + Tax: |
|-----------------------------|--|
| Up to 2 400 BGN | Unobservable |
| From 2 400 BGN to 4 000 BGN | 20 percent for an over 2 400 BGN |
| From 3 000 BGN to 7 200 BGN | 120 BGN plus 22 percent for over 3 000 BGN |
| Over 7 200 BGN | 1 044 BGN plus 24 percent for over 7 200 BGN |

The calculated tax based on the indicated income table of BGN 10,000 is:

$$1\,044 + (2\,800 \times 24\%) = 1\,044 + 672 = 1\,716 \text{ BGN}$$

- Under the proportional system (flat tax currently applicable at 10%):
 $10\,000 \times 10\% = 1\,000 \text{ BGN}$
- In the patent system, the annual tax is 360 BGN. Annex 4 of the TDCA.
The tax burden borne by individuals who received the same income during the year can be represented by the following figure:

Figure 1. Amount of tax due at income of 10 000 BGN taxed on the methodology of different tax systems



Source: the author

From the example and graph, it can be seen that for the same annual income received by three individuals taxed by different systems, the tax is different. Thus, they are placed under unequal taxation.

The use of the patent tax, after the introduction of the flat tax to the taxation of income of individuals, leads to violations of these principles applied in the countries of the European Union:

- principle of equal treatment-taxation policy must be clear, comprehensible and equally applicable to all, i.e. the tax laws should be applied equally to all taxpayers, regardless of their status;
- the principle of public trust in the revenue administration. This principle means that the revenue administration should not use unnecessary or unlawful authority given to it by law in its relations with taxpayers;
- the principle of mutual respect between taxpayers and the revenue administration.

In conclusion, it can be summarized that:

Firstly, Patent tax has played an important role in increasing the collection of tax revenues during the first years of the transition.

Secondly The applied patent system of taxation has a specific organization that is unique to Bulgaria only, which does not apply in other EU countries.

Thirdly The patent tax puts individuals at a disadvantage in the same income.

Fourthly. The new realities of the socio-economic life and the optimized structure of tax authorities impose elimination of the patent system of the taxation of personal income.

Patent tax may be maintained for certain activities exercised by persons at a disadvantage relative to other members of society, a practice that is applied in some countries of the European Union.

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