Country

Sofia Bulgaria

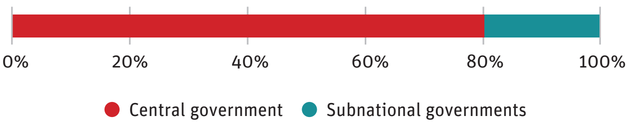
CITY:
1.2 mil. inhabitants

METROPOLITAN AREA
N/A

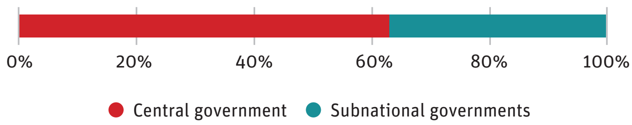
GDP: N/A

How local public finance systems work in Bulgaria

PUBLIC REVENUE



CAPITAL EXPENDITURE



Bulgaria has a **single tier of subnational government (SNG),** consisting of 265 municipalities (that have an administrative center and adjacent settlements).

Financial provisions are provided by the Constitution, the Local Self-Government Act and the Local Administration Act, the Local Taxes and Fees Act (enacted in 1999 and amended in 2018) and the 2014 Law on Public Finance,which contains the legal basis for preparation of the autonomous budgets of municipalities. **By law, exclusive municipal competences are financed from local taxes, while delegated obligations are financed by transfers from the national budget. However, individual municipalities can add additional funding from local sources to carry out delegated tasks.** Municipal revenue is thus decisive in determining whether delegated services will be provided at a quality above the national average or not. This may create imbalances and differences between municipalities.

A number of reforms have been implemented since 2000 aimed at increasing the fiscal autonomy of local governments (which, of course, remains relatively low). In 2018, an expert group created a proposed amendment to the Local Taxes and Fees Act. The amendment proposed introducing a municipal person income tax, increasing local discretion on tax assessments, and the creation of new fees for street lighting and urban congestion.

In recent years, the public investment of SNGs has fallen far below the EU average and in 2016 amounted to 0.9% of the GDP and 37% of the total public investment (EU 1.4% and 51%). In 2016, 45% of the investment was directed towards housing and technical infrastructure, 13% to economic affairs and transportation and 12% to education (infrastructure construction and maintenance).

SNG revenue amounts to a relatively small part of the GDP and total public revenue; in 2016 it was 7% of the GDP and 20% of the total revenue. **Transfers and grants account for the largest part of SNG revenue (71%), which is significantly above the EU28 average (44%). The tax revenue (despite recent reforms aimed at increasing it) accounts for just 14% of the total revenue (EU28 41%).**

Other revenues (fees and property income) make up the remaining 16% (EU28 13%).

The reform of 2003 resulted in a major shift away from the system of shared taxes (built on personal income tax) towards a system of local taxes. The tax reform of 2006 further decentralized tax collection and established local tax administration. **In 2017, municipalities were given the right to set independent local tax rates (within legal limits). However, municipalities do not have the right to determine the base for local taxes or provide tax breaks.**

SNG tax revenue currently consists exclusively of own-source taxes, including the property tax, the tax on property transactions or the vehicle tax, (these taxes account for 78% of the local tax revenue and 11% of total local revenue). Less significant taxes include the inheritance tax, patent tax and tourism tax. In 2016, property tax alone accounted for 35% of the local government tax revenue and 5% of their total revenue.

This card is part of study The Poor City of Prague? Prague's public finances in the Czech and international context; available for download at http://www.iprpraha.cz/ekonomika

The reform of 2003 that eliminated personal income tax also changed the system of state transfers. **The reform increased the share of conditional grants, focused on the financing of state-delegated responsibilities. Now these represent approx. 75% of all transfers.** Transfers consist of a share in the personal income tax revenue and a grant calculated based on the amount of expenditures and the national average of the revenue capacity.
Most transfers are for education (70%), then social care (10%), culture and health care.

Municipalities also receive a general equalization grant (approx. 10% of all transfers); these are unconditional transfers and local governments can use them at their own discretion. **General equalization grants** are intended to ensure that each municipality offers a basic level of services. The amount is determined by two criteria: revenue potential and necessary expenditures (taking into account the area of the territory).

Capital transfers make up a small share, most often earmarked for the reconstruction of highways and roads. The Bulgarian government has also received nearly 4 bil. EUR in transfers from the EU, with the aim of improving the environment, social care and technical infrastructure (municipalities receive up to 60% of all transfers allocated to Bulgaria).

Since 2003, local governments have had absolute autonomy over local fees. They can introduce fees, abolish them and set their rate. The result of this autonomy is that fees make up a significant portion (13%) of the local revenue sources (EU28 12%). Local fees include household waste disposal, retail and wholesale markets, fairs, kindergartens, specialised social services institutions, technical/administrative services, dog ownership, and the use of sidewalks, squares, and roadways, etc.

The sale and management of municipal assets, fines, dividends from municipal companies and income from concessions also represent a major source of revenue for local governments. Asset income accounts for 2.3% of local government revenue (EU28 1.2%).

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on- Subnational-Government-Finance-and-Investment.htm