



# The EU Mutual Learning Programme in Gender Equality

The impact of various tax systems on gender equality  
Sweden, 13-14 June 2017

Comments Paper - Bulgaria



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*This publication is supported by the European Union Rights, Equality and Citizenship Programme (2014-2020).*

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# Flat tax of family taxation - the ongoing debate

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## 1. Personal Income Taxation in Bulgaria

The equality of women and men was formally proclaimed in the Bulgarian socialist Constitutions of 1947 and 1971 and was guaranteed in other legislation<sup>1</sup>. The new regime after the Second World War shifted the economy type from a predominantly agrarian towards an industrial one, while encouraging the relocation of the labour force from the countryside to the cities. The extensive nature of the economy needed the labour force of women. In order to increase women's labour participation the state gradually introduced a number of social welfare measures aimed at assisting women to combine their labour engagements with their family responsibilities, mostly concerning child-care facilities and some attempts to socialise domestic labour, etc., which was also expressed as a commitment to equality. An ideology of equality backed with a system of centralised wage setting limited the level of earnings inequality during the period of central planned economy of state socialism.

The Income Tax Act adopted in 1950 introduced an individual progressive taxation with a number of income brackets of citizens with permanent employment. As agriculture dominated at that time, the second type of taxation introduced with the same act was the progressive household taxation on annual base. A private household consists of two or more persons living in a dwelling or part of dwelling and sharing common budget, having their meals together, no matter if they are relatives or not. The payment of the income tax was an obligation of the head of the household - its older member or the factual manager. The household income tax included also income from handcrafting, freelancing, trading, renting property etc. gained from each member of the household.

According to the new Constitution adopted in 1991 after the fall of the Berlin Wall, the country's economic development is based on the principle of free economic initiative, and the State establishes and guarantees the necessary legal conditions for the economic activity of the citizens and for protecting consumers from abuse by monopolies and unfair competition (Art. 19). To limit any negative social consequences of wage and price liberalisation during the transformation to a market economy, several new institutions developed in the early transition period after 1989 to limit increases in earnings inequality. These included a tax-based incomes policy, a minimum wage, and collective bargaining at the national, regional, and enterprise levels. A tax-based incomes policy was introduced after price liberalisation in 1991 on behalf of a tripartite agreement among government, employers and the largest national trade union federations<sup>2</sup>. The Income Tax Act was changed and amended many times during its time-being especially after 1990 and was repealed in 1997 by

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<sup>1</sup> The 1947 Constitution proclaimed equal rights of women and men in all spheres of life and guaranteed women equal to men right to work and to receive equal pay for equal work, right to respite, social security, pension and education (Art. 72). This was confirmed in 1971 Constitution (Art. 36 "Women and men in the Republic of Bulgaria have equal rights").

<sup>2</sup> Giddings, Lisa A. Changes in gender earnings differentials in Bulgaria's transition to a mixed-market economy, *Eastern Economic Journal*, Vol. 28, No. 4, Fall 2002 [http://web.holycross.edu/RePEc/eej/Archive/Volume28/V28N4P481\\_497.pdf](http://web.holycross.edu/RePEc/eej/Archive/Volume28/V28N4P481_497.pdf)

the Income Taxes on Natural Persons Act (in force from January 1st 1998, repealed at the end of 2006).

The personal income tax today is regulated by the Income Taxes on Natural Persons Act (entered into force on January 1st 2007) which covers taxation of income of both local and foreign natural persons. Taxable income is the whole income of the local natural person, including that which originates from a source abroad (principle of worldwide income taxation), whereas foreign persons only owe tax on income originating from a source in Bulgaria (territorial principle). Object of taxation is income originating from labour and non-labour relationships of natural persons, income from rent, management of real estate or the transfer of rights, etc. (income received from patent activity is taxed in accordance with the Local Taxes and Fees Act). The tax is annual, and is characterized by: progressive scale; zero-bracket amount, significant number of tax incentives and tax reliefs.

The idea of flat income taxation was popular since the beginning of 2003 when 100 economists/experts sent an open letter to the Minister of Finance insisting on the introduction of a 10% flat income tax in order to improve the competitiveness of the real economy and to support fiscal security. The society however was not prepared for this tremendous change, however gradually firstly business, and later political parties' leaders supported the idea.

In 2008 Bulgaria introduced proportional 10% flat tax on personal income, replacing the progressive rate with three income brackets (between 20% to 24% and zero-bracket amount). It was accompanied with abolition of non-taxable minimum<sup>3</sup>, and the bigger part of the existing tax incentives and tax reliefs were repealed. As it was stipulated in all previous personal income tax acts since 1950 the individuals pay taxes for their own income, there is no couples and families taxation as it is separate for family members in one household. However the family composition is relevant for some of the existing or later introduced tax reliefs. The Act provides for the following tax reliefs: for persons with reduced working capacity; for personal contributions for voluntary insurance; for personal contributions for insurance length of service; for donations; for young families; for families with children; for families with dependent children with disabilities.

The goal of the change was to simplify the system; to increase tax collection and decrease the share of shadow/grey economy; to increase consumption, savings and investment/foreign direct investments as well, and hence stimulate economic growth; to create new jobs and reduce unemployment, etc.

Personal income tax as % of GDP in 2014 was the same as in 2002 before the introduction of the flat tax - 3.1%<sup>4</sup>. In 2015 in the structure of total household expenditure of annual total income per capita taxes comprised 5%<sup>5</sup> and were almost the same percentage since 2010<sup>6</sup>.

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<sup>3</sup> Non-taxable minimum with return of the advanced paid taxes at annual basis was introduced back in 2014 but abolished next year.

<sup>4</sup> Taxation trends in the European Union, 2016, p. 56  
[http://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/taxation/gen\\_info/ec\\_omic\\_analysis/tax\\_structures/country\\_tables/bg.pdf](http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/ec_omic_analysis/tax_structures/country_tables/bg.pdf)

<sup>5</sup> National Statistical Institute. Statistical Yearbook 2016, p. 133.

<sup>6</sup> National Statistical Institute. Data on household monetary expenditure.

## 2. Women's labour market participation in Bulgaria

The ILO global statistical survey of women's economic activity shows that the number of women in the economically active population in the socialist countries in Europe has grown very rapidly in 1950-1980, and more than 80 percent of women of working age (16-54) carry out an economic activity in Bulgaria<sup>7</sup>. At 31 Dec. 1983 Bulgarian women comprised 49.3% of the employees in the national economy. The gender segregation in the workforce is somewhat less pronounced of Bulgaria than in other European countries<sup>8</sup> as Bulgarian women have a higher involvement in traditionally male fields such as science, maths, computing and engineering; and a lower involvement in the service field.

The employment rate for both sexes has been relatively low during the past decades, due to hardships experienced by the national economy after the fall of the communism. Despite the efforts of the authorities to fight grey/undeclared economy the exact involvement in the labour force is quite difficult to determine, due to the presence of the unregulated informal sector. According to World Bank, women in 2014 made up 46.6% of the total labour force, pretty much the same as in 1990 (47.9%)<sup>9</sup>.

In 2015 the number of employed women was the same as in 1995, while the number of economically active women is with over 120 thousand less than in 1995. The number of the registered unemployed women in 2015 was twice less than the same number in 1995. The activity rate of women in 2015 at 15-64 age group was 65.4%, the employment rate - 59.8%, unemployment rate - 8.5%<sup>10</sup>.

In 2016 employed persons in the age group 15 - 64 were 63.4%, 66.7% for men and 60.0% for women. The rate of employed persons in the age group 20 - 64 is 67.7%, 71.3% for men and 64.0% for women<sup>11</sup>. In 2016 the unemployment rate is decreasing and currently is about 6-7% which is below the EU average but unfortunately according to the opinion of economic experts employment did not increase due to the stable labour migration mainly to Western Europe.

Fixed term contracts in Bulgaria are an exception and the parties can enter into such contracts only for a specific cause. The parties to an employment contract can agree to part-time work. There is no statutory minimum duration of part-time work; a minimum four-hour working day is recognised as the full day length of service. However, part-time work plays a minor role in Bulgaria. Bulgarian women's involvement in the economy can be seen in the fact that almost all employed women work full-time due to the traditional pattern of working women from the previous period. The rate of female employees who work part-time is the lowest among employed women in the EU in 2015<sup>12</sup> - 2.4%<sup>13</sup> as women tend to work full time or not at all<sup>14</sup>.

<sup>7</sup> Women in Economic Activity: A Global Statistical Survey (1950-2000), A joint publication of the ILO and INSTRAW, 1985, p. 137.

<sup>8</sup> The current situation of gender equality in Bulgaria - country profile 2013 [http://ec.europa.eu/justice/gender-equality/files/epo\\_campaign/131128\\_country-profile\\_bulgaria.pdf](http://ec.europa.eu/justice/gender-equality/files/epo_campaign/131128_country-profile_bulgaria.pdf)

<sup>9</sup> <http://data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS>

<sup>10</sup> National Statistical Institute. Statistical Yearbook 2016.

<sup>11</sup> National statistical institute, Labour Force Survey 2016

[http://www.nsi.bg/sites/default/files/files/pressreleases/LFS2016\\_A1UAAIP.pdf](http://www.nsi.bg/sites/default/files/files/pressreleases/LFS2016_A1UAAIP.pdf)

<sup>12</sup> <http://ec.europa.eu/social/main.jsp?langId=ro&catId=89&newsId=2535&furtherNews=yes>

<sup>13</sup> <https://data.oecd.org/emp/part-time-employment-rate.htm>

<sup>14</sup> The current situation of gender equality in Bulgaria - country profile 2013 in

[http://ec.europa.eu/justice/gender-equality/files/epo\\_campaign/131128\\_country-profile\\_bulgaria.pdf](http://ec.europa.eu/justice/gender-equality/files/epo_campaign/131128_country-profile_bulgaria.pdf)

The National Statistical Institute (NSI) is monitoring the average number of actual weekly working hours per employed. For the first quarter of 2017 statistics shows that male work 40.4 hours per week, while female - 39.8.

In 1986 the average female worker in Bulgaria earned about 74 percent as much per month as the average male worker. By 1993, the monthly earnings differential between men and women decreased by almost six percent. This can be explained by the higher educational degree obtained by women and their employment in particular industries (like trade and services) which grew and favoured women in the early transition period<sup>15</sup>.

National Statistical Institute collects data on average annual wages and salaries of the employees under labour contract by economic activity groupings and sex. The last evidence from 2015<sup>16</sup>, published on 22.02.2017, shows that in some sectors (e.g. Information and communication, Financial and insurance activities) average women's salaries on annual basis comprise 70% of males.

In 2015 Bulgaria recorded higher gender pay gap (in absolute terms) in the public sector - 22,5% than in the private sector 13,5%, according to the Eurostat data, which is opposite to the structure of gender pay gap in the other EU MS<sup>17</sup>.

According to the National Statistical Institute (published on 29.12.2016) the gender pay gap is as follows: 12.2% in 2011; 14.0% in 2012; 12.7% in 2013; 12.9% in 2014; 14.2% in 2015, and was below the EU average.

However, it has to be mentioned, that the proportion of the low-wage earners in Bulgaria is quite high, and the national median gross hourly earnings are the lowest in the EU.

It might be concluded that individual taxation most probably had impact on women's labour market participation at early stages of its introduction in 50ies-70ies. The introduction of a flat tax 10 years ago most probably had impact on regulation of the undeclared labour, including female undeclared labour.

Bulgaria is characterised with a dual-earner model, however it can be observed the increase in the number of women who are the sole or primary earners in the couple, especially among Bulgarian migrant women working abroad.

### 3. Policy debate

Policy and experts debates on which type of tax system will be more appropriate to introduce having in mind the change in the political system and in economic conditions in the process of transition to market economy were held in the country since early 90ies. Advocacy for tax reform by introducing flat tax has started from 1997 onwards as opposite to the discussions about introduction of family taxation. Expectations of the flat tax impact were the decrease of the grey economy, more foreign direct investments, accelerated economy, and lower compliance costs. Expectations of the family taxation were to support families with children, to improve the negative demographic trends. Actually the term "family taxation" was and still is used especially in political and public speaking only in a sense of "tax relief for raising children in a family". Such opportunity was introduced in the personal income

<sup>15</sup> Giddings, Lisa A. Changes in gender earnings differentials in Bulgaria's transition to a mixed-market economy, Eastern Economic Journal, Vol. 28, No. 4, Fall 2002  
[http://web.holycross.edu/RePEc/eej/Archive/Volume28/V28N4P481\\_497.pdf](http://web.holycross.edu/RePEc/eej/Archive/Volume28/V28N4P481_497.pdf)

<sup>16</sup> <http://www.nsi.bg/en/content/6439/total-economic-activity-groupings-kind-ownership-gender>

<sup>17</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Gender\\_pay\\_gap\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_pay_gap_statistics)

tax act much before the introduction of the flat tax and is in power until nowadays, when one of the parents can claim tax return on annual basis depending on the number of children in the family, the family composition and other conditions. Calculations of experts before its adoption proved that the flat personal income tax because of diminishing tax burden actually would improve the family incomes better and would benefit bigger number of families than the family taxation within the scope of progressive taxation with a number of income brackets<sup>18</sup>.

The debate is ongoing since late 90ies with arguments in both directions. Experts insist that economic development, resp. income has strong impact on the fertility rate<sup>19</sup>. There are many voices mainly from political parties that flat tax limits income redistribution; periodically suggestions to replace the country's 10% flat income tax with a progressive-rate system and family taxation are discussed either at experts' and political forums, or at the National Parliament. One of the arguments against is that the flat tax "did not increase the transparency of income taxation nor did it become easier to administer... income taxation is not simple, neutral and non-distortive"<sup>20</sup>. Another substantial argument against the flat tax is the fact that the ratio between the direct and the indirect taxes in Bulgaria is 1 to 3 in favour of indirect taxes (like VAT, fees and others)<sup>21</sup>, which creates a big burden on families with more members. The latter could affect more likely women than man, single parents, families with disabled or dependent members, as the VAT system in Bulgaria does not provide for exemptions, reduced rates and zero rating.

Some of the suggestions for changes of the tax system are oriented towards women as a target of future tax changes but are quite questionable - e.g. one of the trade unions suggested this year to introduce 50% deduction of the income taxes of women who are caring for disabled or dependent relatives. According to the union leaders 60% of long-term unemployed women have no income for more than 2 years because of family responsibilities.

The projections of the National Statistical Institute of the net annual earnings for family, calculated by deducting the employee's social security contributions and income taxes, and adding family allowances (if applicable) of an average worker, working at full-time and receiving the average gross earnings in industries and services shows that the average tax rate is the same for all types of families except single parent or couples with low income and children who are compensated with children allowances<sup>22</sup>. However tax burden is on low-income taxpayers.

<sup>18</sup> <http://www.bednostbg.info/analysis/>

<sup>19</sup> Tsanov, Vassil. Growing inequality and its impacts: Bulgaria and Romania, Concluding Conference on GINI Growing inequalities' impacts, Amsterdam June 2013  
[http://gini-research.org/system/uploads/486/original/8\\_-\\_Tsanov.pdf?1372263618](http://gini-research.org/system/uploads/486/original/8_-_Tsanov.pdf?1372263618)

<sup>20</sup> Kalchev, Emil. The Bulgarian Flat Tax. In: Economic Alternatives, Issue 1, 2014  
<http://www.unwe.bg/uploads/Alternatives/3.pdf>

<sup>21</sup> Aladzhov, Ivan. Anti-social tax system in Bulgaria (In Bulgarian) Антисоциалната данъчна система на България <https://infobalkani.wordpress.com/2015/03/25/>

<sup>22</sup> National Statistical Institute, published on 20.12.2016 <http://www.nsi.bg/en/content/6445/net-earnings-and-average-tax-rate>

#### 4. Transferability aspects and Conclusions and recommendations

Bulgaria differs from almost all EU MS as regards individual income taxation<sup>23</sup>. It is obvious that the state customized the national personal tax system to its policy goals thus different political decisions were taken during the years about the scale, type of taxation, tax deductions and reliefs etc. This, however, influences the behaviour of the tax payers including in personal issues such as choice of profession, of a job, of family status etc. To what extent the balance between the principle of justice and the principle of effectiveness will impact the distribution of income and the distribution of paid and unpaid work in the family, and how it will affect women and men should be subjects of further debates in the country.

The Swedish experience in this respect is very important because of a number of suggestions for further consideration:

- Personal income tax system has never been debated in Bulgaria from a gender perspective having in mind that no tax system is neutral and might contribute to or hinder gender equality;
- Personal income tax system does not consider parents as autonomous individual economic subjects yet as elements of family-based taxation are still present (and depending on the influence of different political subjects might be even strengthen on the account of women, transferring them back to a position of secondary salary in the family);
- There is a lack of reliable information on the preferences of the people and lack of statistics on the share of mothers/fathers in the labour force and their preferences about reconciliation of private and work life;
- There is a lack of reliable information what are the variations between different women taxpayers;
- Is it possible and how to collect women and men's individual incomes (not only from employment and labour) and what information this will give us and how it will influence future decisions;
- How female participation in the labour market and choices when, how many and what to work influence women's future status in the pension system, etc.

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<sup>23</sup> Popova, Nelly. Personal income tax system in Bulgaria, 13 international Scientific Conference on Economic and Social Development, Barcelona, April 2016.