

THE ROLE AND IMPORTANCE OF EXCISE DUTY IN BULGARIA

Zhelyo Zhelev

D. A. Tsenov Academy of Economics, Bulgaria, zh.zhelev@uni-svishtov.bg

Abstract: The goals of the economic policy of each country are reduced to providing financial resources for the country, creating conditions for regulating the economy, as well as influencing the emerging inequality in market relations and income levels of the population. In the process of achieving them, the functions of one of the oldest instruments are used - taxes and in particular - excise duty. The very concept of "tax" has a unique **fiscal function**, which is clearly manifested in all historical stages. In other words, there is no tax - no cash flow in the country. The main public purpose of taxes, including excises, is to provide the budget with the necessary financial resources to perform the functions of the state. By their nature, excises are cash payments to legal entities and individuals to the budget, which become due in the presence of legally defined provisions. **The regulatory function** (economic) of taxes and excises, in particular, is applied in the tax system, creating certain advantages (privileges and preferences) for certain priority sectors, certain types of activities or tax mechanisms that hinder economic growth (increased tax rates, additional tax taxation, etc.). The **control function** of taxes and excise is expressed in limiting the possibilities for carrying out illegal actions, leading to avoidance of payment of tax liabilities and excise. The direction of this function is directed in two directions and has two meanings - to protect the population and to increase the collection of excise duties. The European Union and its excise legislation define the administration of excise duties as a national responsibility of each EU member state. The responsibility is expressed specifically in the fiscal function of the excise duty, namely that the revenue from the excise duty goes to the budget of the Member State where the excise goods are consumed. The control impact includes inspections and audits of the licensed warehouse keepers, the persons registered under the excise legislation, the end users exempted from excise, as well as all other persons performing activities with excise goods. Excise duties are indirect taxes nature and their manifestation dates back to the Roman Empire. Their original purpose is to limit the use of goods that harm the health of the consumer as well as the environment. The report examines the role of excise duties and how they are levied. Topical issues related to fiscal value of excise duties in Bulgaria are discussed. On this base, the tax revenues that come into the budget are analyzed. Excise control, in addition to fiscal importance, also has its social and environmental role, expressed in the protection of the population and the environment, by limiting the consumption of excise goods. By administering the excise duty and applying their control effect, the control authorities favor the possibility of the funds from the collection of excise duty to be spent to cover the damages caused by the use of excise goods.

Keywords: taxes, indirect taxes, excise, excise duty, control

1. INTRODUCTION

The goals of the economic policy of each country are reduced to providing financial resources for the country, creating conditions for regulating the economy, as well as influencing the emerging inequality in market relations and income levels of the population. In the process of achieving them, the functions of one of the oldest instruments are used - taxes and in particular - excise duty.

The very concept of "tax" has a unique **fiscal function**, which is clearly manifested in all historical stages. In other words, there is no tax - no cash flow in the country. The main public goal of taxes, including excises, is to provide the budget with the necessary financial resources to perform the functions of the state. By their nature, excises are monetary payments of legal entities and individuals to the budget, which become due in the presence of legally defined provisions (Law on Excise Duties and Tax Warehouses, 2006).

The regulatory function (economic) of taxes and excises, in particular, is applied in the tax system, creating certain advantages (privileges and preferences) for certain priority sectors, certain types of activities or tax mechanisms that hinder economic growth (increased tax rates, additional tax taxation, etc.). Although the excise duty "burdens" the final selling price of the goods, the regulation is possible only in one direction - reduction or restriction of production.

The control function of taxes and excise is expressed in limiting the possibilities for carrying out illegal actions, leading to avoidance of payment of tax liabilities and excise. The direction of this function is directed in two directions and has two meanings - to protect the population and to increase the collection of excise duties. The control actions of the customs authorities are expressed in the protection of the population and the environment by limiting the consumption of a given excise goods. Priority control actions are aimed at covering the existing production and trade turnover with excise goods. The control impact of the tax and customs authorities is also aimed at increasing the collection of liabilities related to the production and sale of excise goods by legal entities and

individuals. For this purpose, the produced and imported excise goods are controlled by applying an excise, ad valorem system, as well as a system of fixed excise (Tananeev & Stoykova, 2013).

2. CONTROL SYSTEMS ON EXCISE GOODS.

Excisable goods according to EU directives (Council Directive 2008/118 / EC on the general arrangements for products, 2008) are alcohol and alcoholic beverages, tobacco products, energy products / motor fuels and heating fuels - gasoline, diesel, natural gas, coal and coke / and electricity. The excise system used for the taxation of excise goods from the **group of alcohol and alcoholic beverages (ethyl alcohol)** and for a specific excise duty on tobacco products. Manufacturers of tobacco products and bottled alcoholic beverages falling within Combined Nomenclature (CN) code and with an alcoholic strength of 15% vol. or more intended for sale on the internal market shall be required to affix excise label¹ on the consumer packaging. The excise label is attached to the package and the only way to open the package is by tearing the excise label. This is a preventive control measure, through which the control bodies guarantee both the quality of the excise goods and the paid excise duty.

The ad valorem system applies to **the group of tobacco products (cigarettes)**. It's expressed in the proportional excise component, which is a share of the final price of the excise goods and accordingly depends on the price levels of the individual tobacco companies. The other component for determining the excise duty on tobacco products is a specific excise duty. This is the absolute value based on the amount of tobacco / cigarettes. In the European Union (EU) and specifically in Bulgaria, a mixed structure of the two components used to calculate the excise duty.

The flat-rate excise system applies to certain excise products in **the group of alcoholic beverages (wines, other fermented beverages and intermediate)**. Wines and other fermented beverages² have a fixed excise rate - BGN 0 on the amount of hectoliters of finished product. Despite the zero rate, excise duty is charged. Intermediates are aromatic wines based on wine but also containing ethyl alcohol. The excise rate is fixed - BGN 90, and the tax base is per hectolitre of finished product.

3. TAX RATES AND TAX BASES OF EXCISE GOODS.

The European Union and its excise legislation define the administration of excise duties as a national responsibility of each EU member state. The responsibility is expressed specifically in the fiscal function of the excise duty, namely that the revenue from the excise duty goes to the budget of the Member State where the excise goods are consumed. In this regard, it is necessary to indicate what are the tax rates of individual excise goods and what is the tax base on which they are charged. (See *Table 1*).

Table 1. Rate and tax base of excise goods in Bulgaria.

№	Excise goods	Tax base	Tax rate
I.	Alcohol and alcoholic beverages		
1.	Beer	Hectoliter per degree Plateau	1.50 BGN 0.75 BGN
2.	Wine (quiet and noisy)	Hectoliter finished product	0 BGN
3.	Other fermented products	Hectoliter finished product	0 BGN
4.	Intermediate products	Hectoliter finished product	90 BGN
5.	Ethyl alcohol	Hectoliter of pure alcohol (100° C)	1100 BGN 550 BGN
II.	Tobacco and tobacco products		
1.	Cigars and cigarillos	1000 pieces	270 BGN
2.	Smoking tobacco	kg	152 BGN
3.	Heated tobacco products	kg	233 BGN
4.	Cigarettes:		

¹ Government security issued in the form of a paper tape with certain requisites - series, number, symbol (it is allowed to write symbols specifying the type or other characteristics of the alcoholic product for which the excise stamps are used).

² **Cider, cider raspberry, pear, liqueur wine** - still and sparkling fermented beverages, other than beer and wine, which do not fall within the requirements for still and sparkling wines and are produced from products other than grapes.

	- <i>Specific excise duty</i> - <i>Proportional excise duty</i>	1000 pieces Sale price	- 109 BGN - 25 BGN
III.	Energy products³		
1.	Lead gasoline (A95H)	1000 liters, adjusted to a temperature of 15 ° C	830 BGN
2.	Unleaded petrol (A98H)	1000 liters, adjusted to a temperature of 15 ° C	710 BGN
3.	Gas oil	1000 liters, adjusted to a temperature of 15 ° C	646 BGN
4.	Kerosene	1000 liters, adjusted to a temperature of 15 ° C	646 BGN
5.	Liquefied gas (LPG)	1000 liters, adjusted to a temperature of 15 ° C	340 BGN
6.	Electrical energy	MG	2 BGN

The rates and tax bases are in accordance with the current excise legislation (Law on Excise Duties and Tax Warehouses, 2006) of the Republic of Bulgaria by 2019. One of the obligations of our country, as a full member of the EU, is to comply with the current excise legislation of the Union. In other words, the tax rates for excise goods in Bulgaria should not be below the set minimum values for the Union. In this regard, it should be noted that a large part of the rates for excise goods set out in our excise legislation are the minimum for the EU. Exceptions are **tobacco products**, for which Bulgaria has chosen a relatively low level of **specific excise duty** (BGN 109 of the maximum possible - BGN 180 for the EU) and **proportional excise duty** (25% of the selling price of the maximum possible - 60% for the EU). The rates on cigarettes, tobacco products in general, rank Bulgaria as one of the three Member States with the lowest excise duty. Only Luxembourg and Poland have a lower tax rate (Commission, EXCISE DUTY TABLES. Part III Manufactured Tobacco., 2019).

Another exception is the excise duty on **liquefied gas** (LPG), which is BGN 340 with a minimum requirement of BGN 245. According to this parameter, Bulgaria is in about 15th place in terms of excise duty. The average value for the EU is 261 euros (about 510 BGN) (Commission, EXCISE DUTY TABLES. Part II Energy products and Electricity., 2019).

Electricity also differs in value from other excise rates for which Bulgaria has set minimum values. For example, households that use electricity are not subject to excise duty, and businesses are taxed at BGN 2 per megawatt-hour at a minimum value of EUR 0.50 (about BGN 1).

4. IMPORTANCE OF EXCISES AS TAX REVENUE FOR THE STATE BUDGET.

Based on the above, it is possible to analyze the tax revenues that have entered the budget from the payment of excise duty on consumed goods in the country, as well as from imports of excise goods. The period to be considered is 5 years (2013 - 2017), as there are no data for 2018 and 2019. (See **Table 2**).

Table 2. Tax revenues from excise for the period 2013 -2017 (million BGN).

Year Income from excise duty	2013	2014	2015	2016	2017
<i>From the country</i>	4 032 713.2	4 018 740.8	4 503 465,8	4 794 784,5	4 968 062,9
<i>From imports</i>	23 051.6	19 934.2	21 531,6	10 226,1	16 470,6
TOTAL	4 055 764.8	4 038 675.0	4 524 997,4	4 805 010,5	4 984 533,5

Source: Ministry of Finance. Tax Policy Directorate

The data in **Table 2** illustrate the amount of revenues received in the country's budget, which are equal to about 25% of tax revenues in the central and local budgets (Ministry of Finance, 2013, 2014, 2015, 2016, 2017). There is a

³ Due to the large number of types of energy products and their different classification, some of the more important and consumed goods of the population will be indicated.

serious difference between the revenues from excise duties in the country and those from imports of excise goods. On this basis, it can be pointed out that the fiscal interest for the state budget is mainly from the production and sale of excise goods in the country.

The second thing that can be indicated for the data in Table 2 is the slow rise, but at a relatively uniform rate, of the country's revenues (by nearly BGN 200 million per year). An exception is 2014, in which revenues decreased by about BGN 15 million compared to 2013. **The reasons** for the decrease can be found in the increase of **illegal actions** with cigarettes and alcohol (Antonov, 2014), as well as existing **weaknesses in the Bulgarian Excise Centralized Information System (BACIS)**, for which in 2015 the Bulgarian Oil and Gas Association (BPGA) filed a complaint with the Ministry of Finance and the Customs Agency (Biserova, 2018).

The control actions of the customs authorities on the excise goods are regulated in the Tax and Social Security Procedure Code (TSSPC) (Tax and Social Security Procedure Code, 2015). For this reason, the control over excise goods has the character of a tax proceeding. The control impact includes **inspections** and **audits** (Zhelev, 2020) of the licensed warehouse keepers, the persons registered under the excise legislation, the end users exempted from excise, as well as all other persons performing activities with excise goods.

A new moment in the control actions is **the introduction of a system for monitoring (observation) of the licensed warehouse keepers**. In **the reasons stated** in the Draft Amendment to the Law on Excise Duties and Tax Warehouses, for the necessary additional provision of control, it is noted that numerous violations of the excise legislation have been established. **The aim** is to minimize the risk of unregulated loading and/or unloading of vehicles in tax warehouses, as well as the risk of possible unregulated impact and manipulation on the means of measurement and control.

The business in the person of the Bulgarian Chamber of Commerce (BIA), supported by branch organizations such as the National Organization of Customs Agents (NOMA) and others. objected to the new changes in the Draft Amendment to the Law on Excise Duties and Tax Warehouses. In their opinion, they point to several reasons: the inability to ensure the protection of personal data; lack of a defined problem; lack of a clear strategy; lack of methodology and actually indicated end result; lack of responsibility for the storage and destruction of the collected data.

5. CONCLUSIONS

In conclusion, it could be summarized that excise duties as one of the main taxes are essential for the budget. The fiscal function of excise duties has made them a desirable tool for generating revenue. For this reason, in the application of the two main directions of excise duty - **fiscal** and **protective**, the opposite is expressed between them. In practice, if one direction is preferred, the other remains neglected.

Excise control, in addition to fiscal importance, also has its social and environmental **role**, expressed in the protection of the population and the environment, by limiting the consumption of excise goods. By administering the excise duty and applying their control effect, the control authorities favor the possibility of the funds from the collection of excise duty to be spent to cover the damages caused by the use of excise goods.

In this way a sustainable development of the **role** of excise goods and their **importance** for the state budget is formed. At the same time, **control actions** must be **adequate** to the conditions of the time in which they are applied, in order to counteract deviations from the application of regulatory provisions.

REFERENCES

- Antonov, S. (2014, February 20). *The state has lost BGN 12 billion in tax revenues due to the gray economy*. Retrieved September 28, 2019, from www.capital.bg:
https://www.capital.bg/politika_i_ikonomika/bulgaria/2014/02/20/2246240_durjavata_e_zagubila_12_mlrd_1_v_danuchni_prihodi/
- Biserova, I. (2018, January 22). *SANS report: There are omissions and risks of manipulation in the collection of excise duties*. Retrieved September 28, 2019, from www.news.bnt.bg: <http://news.bnt.bg/bg/a/dans-ustanovi-ima-propuski-i-riskove-ot-manipulatsiya-pri-sbiraneto-na-aktsizi>
- Tananeev, E., & Stoykova, P. (2013). *Tax control and administration*. Svishtov: Faber. (in Bulgarian).
- Zhelev, Z. (2020). *Development of excise tax control over the last 30 years*. Svishtov: Cenov. (in Bulgarian).
- Commission, E. (2019, January 1). *EXCISE DUTY TABLES. Part II Energy products and Electricity*. Retrieved September 28, 2019, from www.ec.europa.eu:
https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/excise_duties/energy_products/rates/excise_duties-part_ii_energy_products_en.pdf
- Commission, E. (2019, January 1). *EXCISE DUTY TABLES. Part III Manufactured Tobacco*. Retrieved September 28, 2019, from www.ec.europa.eu:

https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/excise_duties/tobacco_products/rates/excise_duties-part_iii_tobacco_en.pdf

Council Directive 2008/118 / EC on the general arrangements for products, 118 (EO 2008).

Law on Excise Duties and Tax Warehouses (януари 1, 2006). (in Bulgarian).

Ministry of Finance, T. P. (2013, 2014, 2015, 2016, 2017, December 31). *Отчет на данъчните приходи*.

Retrieved September 28, 2019, from www.minfin.bg: <https://www.minfin.bg/bg/1224> (in Bulgarian).

Tax and Social Security Procedure Code (Обн., ДВ, бр. 105 Декември 29, 2015) (in Bulgarian).