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70 Years Value Added Tax

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Abstract

In 2024 the value added tax becomes 70 years old. This "crown of fiscal technique" arose on the basis of the turnover tax, which in turn was a product of the ancient excise tax. Today value added tax is the backbone of the tax system in almost all countries of the world. This paper is dedicated to the prehistory of the tax, the pioneering experience of France (and the European Union) from the middle of the last century and the implementation of the value added tax in Bulgaria

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To my daughter Yoana

INTRODUCTION

In the light of modern views of tax equity, consumption is a key indicator of economic welfare and a natural object of taxation (along with income and wealth). Moreover, some economists launched taxation of consumption as an alternative to income taxation, sharing the idea of mid-seventeenth-century English philosopher Thomas Hobbes (1909) that equity required that people be taxed according to what they take from the economic system (consuming national product), and not according to what they give to the economic system (creating a national product). However, generally speaking, the most appropriate indicator of tax capacity (ability to pay taxes) is income[1]. On this basis, taxes on consumption are considered unfair because they are regressive to income (as income rises, consumption as a share of that income falls).[2]

From the dawn of human civilization to the present, consumption has been taxed indirectly (excises, customs duties, sales tax, value added tax). The tax subject and the person to whom the burden of the tax is directed (the so-called tax destinator) are different economic agents.[3] By definition, the burden of a consumption tax must be borne by the final consumers in the economy. However, the state taxes the producers / sellers, relying that (in the market, through prices) they will be able to pass the tax burden forward to the consumers / buyers.[4] This is not certain! The transfer of taxes (forward and backward) depends on the price elasticity of demand and supply in the market. The more inelastic the demand and/or the more elastic the supply, the greater part of the tax burden is borne by the buyers in the market. Accordingly, the more elastic the demand and/or the more inelastic the supply, the greater part of the tax burden is borne by the sellers.[5] In only two cases is the entire burden of the tax (regardless of who pays this tax to the treasury) borne by the buyers – with perfectly inelastic demand ($E_D = 0$) and/or infinitely elastic supply ($E_S \rightarrow +\infty$).

Indirect taxes on consumption, like (almost) all taxes used by the modern state, distort the market and generate welfare losses (the so-called excess tax burden). The size of these losses depends on the size of the tax rate[6] and the price elasticity of demand and supply[7].

HISTORICAL ROOTS

According to the annals of history, the tax is more than 5,000 years old. The oldest records of taxation were found in the city of Lagash, Sumer, Mesopotamia[8] (3,300 BC). One of the first tax systems was established in Egypt (3,000 – 2,800 BC). It includes taxes on grain, cattle, cooking oil, beer, etc. – the so-called *excises*[9] (the oldest taxes on consumption). A curious example of administration and control is the tax on cooking oil. The Egyptian pharaoh's tax-collectors (scribes) conducted periodic audits to ensure that households were using the proper amount of cooking oil and were not using substitutes for the taxed oil.[10] Ancient Greece and Rome also used different excise taxes, and with the development of international trade and customs duties on imports and exports.[11]

The age-old excise has certainly stood the test of time. From the dawn of taxation until today, excise

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[1] A measure of the increase in an individual's ability to consume.
[2] Taxation is regressive when, with the increase of the base chosen for the purposes of the analysis, the so-called the average tax rate (the ratio of the tax to the relevant base) decreases, and with the decrease of this base, it increases. Modern taxes on consumption are proportional to consumption but regressive to income.
[3] In the case of direct taxes (on income and property), the subject of taxation and the tax destinator coincide. The state taxes income earners and property owners with the idea that they should bear the burden of the corresponding taxes. There is direct taxation.
[4] In tax theory, there are also ideas for direct taxation of consumption – the object of taxation is individual income, reduced by savings (investments). See, for example: Kaldor (1955). With few exceptions (India, 1950s), there is no practical experience of direct taxation of consumption.
[5] Similarly, in direct taxes (on income and property) it is uncertain whether (and to what extent) the tax burden is borne by the respective income recipients and property owners.
[6] The excess tax burden changes with the square of the tax rate.
[7] With absolute inelasticity of demand or supply, there is no excess tax burden.
[8] Part of present-day Iraq.
[9] Taxes on specific goods and services.
[10] https://bebusinessed.com/history/history-of-taxes/ (last visited on 01.03.2024).
[11] The idea of taxing imports and exports was born in ancient Rome.

taxes are part of the tax system in almost all countries of the world.[12] Even in the first expenditure-revenue budget of post-liberation Bulgaria (March 1, 1880 – March 1, 1881)[13] were foreseen revenues from "tobacco tax" (excise on raw tobacco, from tobacco manufacturing and for patents on the right to sell tobacco in shops and stores) and "wine and spirits tax" (Ministry of Finance of the Republic of Bulgaria 2005). In 1948, excises were included in the turnover tax in our country and ceased to exist as independent taxes on consumption (Law on Turnover Tax (Promulgated, SG, No. 22 of 29.01.1948). With the amendment of the Law on Turnover Tax (Promulgated, Notices, No. 91 of 13.11.1951) in 1991[14] excises in Bulgaria have been "rehabilitated" and in the title of the law after the word "turnover" was added "and excises" (thus becoming the "Law on Turnover Tax and Excises"). The excise duty tariff includes spirits, precious metal jewellery, bar entrance tickets, etc., gambling, tobacco products, aircraft and road vehicles for personal use, perfumery, leather clothing, wines, beer, coffee and imported tea, cards for game etc. In 1994, excises in our country were regulated by a separate Law on Excises (Promulgated, SG, No. 19 of 03.02.1994, in force from 04.01.1994). Twelve years later, it was replaced by the Law on Excises and Tax Warehouses (Promulgated, SG, No. 91 of 15.11.2005, in force from 01.01.2006),[15] which is still in force today. Currently, alcohol and alcoholic beverages, tobacco products, energy products and electricity are subject to excise duty in Bulgaria.

The deepest historical roots of the turnover tax (a tax on all goods and services)[16] also lead to the Sumerian civilization – "In Lagash taxes were very low, but in a time of crisis or war the tax rate was ten percent of all goods, which were primarily composed of food." (Carlson 2004). Julius Caesar (100 – 44 BC) introduced the first sales tax in ancient Rome (1% for the entire empire). During the rule of Caesar Augustus (23 September 63 BC – 19 August 14 AD), the sales tax was 4% for slaves and 1% for free citizens.[17]

During the Middle Ages, the fate of the turnover tax in Western Europe was controversial. In the mid-14th century, France doubled the turnover tax rate to finance the war with England[18]. This act faced massive resistance by the middle class. A century later, King Louis XI imposed a 5% tax on wholesale sales. The tax caused mass riots and was repealed soon after its introduction. In the XV – XVII century period, several more attempts followed without particular results, and one of the first actions during the Great French Revolution (1789 – 1799) was to abolish the remaining turnover taxes. In the 19th century, England taxed most goods to finance the war with France, but after its end the scope of the tax was severely limited. After the end of the Franco-Prussian War (1870 – 1871), the idea of a turnover tax was again launched in France, but without success (Pomp 2022).

In the middle of the First World War (in 1916) in the composition of so-called Imperial stamp duty in Germany the stamp tax on sale of commodities at the rate of 0,1% was included. A year later, France introduced a special turnover tax (with rising rates) on retail sales over 1 000 000 francs and a 10% sales tax on luxury goods. From 1919, Germany began taxing the sale of goods and services at 0,5% (5 times higher than in 1916) and imposed a 10% tax on the retail sale of luxury goods (100 times more than in 1916). In 1920, the French Parliament made some changes to sales taxation – a 1,1% general tax on the sale of goods and services (with some exceptions) and a 10% tax on retail sales of luxury goods (wholesale sales of luxury goods are taxed at 1,1%). Meanwhile, Italy (1919), Belgium (1921), Luxembourg (1922), and other countries also introduced a general sales tax (Kuczynski 1923, Buehler 1928). Thus, after the First World War (1914 – 1918), turnover tax became the main source of public revenue in most European countries.

Most sales taxes in Western Europe were multi-phase – sales of manufacturers, wholesalers and retailers are taxed (Germany, France, Belgium). Thus, at a given sales tax rate, the total tax collected for each product varies according to the number of turnovers that product makes before it is consumed!?[19]

Let's assume that a product with a value of BGN 100 goes through 4 phases – from producer 1 to producer 2 (I), from producer 2 to a wholesaler (II), from a wholesaler to a retailer (III) and from the retailer to the final consumer (IV) as each economic agent before the final consumer adds 25 BGN of value (25 + 25 + 25 + 25 = 100 BGN). With a turnover tax rate of 1% and single-phase taxation (for example, at the IV phase, i.e. when the product passes from the retailer to the final consumer) the final price will be BGN 101,00

[12] Currently, excise taxes are levied (mainly) on the so-called demerit goods (alcohol, cigarettes, junk food, etc.), goods and services, the production / consumption of which generates negative externalities and luxury.
[13] The first budget document of the Principality of Bulgaria (March 1, 1879 – March 1, 1880) had only an expenditure side (in French francs).
[14] Law amending and supplementing the Law on Turnover Tax (Promulgated, SG, No. 19 of 08.03.1991).
[15] Given the upcoming full membership of the Republic of Bulgaria in the European Union (EU) from 01.01.2007.
[16] Universal excise.
[17] https://bebusinessed.com/history/history-of-taxes/ (last visited on 01.03.2024).
[18] The Hundred Years' War (1337 – 1453).
[19] There is a so-called cascade effect.

– 100 * (1 + 0.01) = BGN 101,00.[20] The effective tax rate is 1% and is equal to the statutory tax rate. Under the same conditions and a multi-phase turnover tax (1% in each of the four phases), the final price will be BGN 102,53 – the effective tax rate is now 2,53% (more than two and a half times that of a single-phase turnover tax). If the same product with a value of BGN 100 goes through not 4, but through 5 phases (the economic agents before the final consumer are three producers, a wholesaler and a retailer) and at each phase a value of BGN 20 is added (20 + 20 + 20 + 20 + 20 = BGN 100), the final price becomes BGN 103,04. The effective tax rate is as much as 3,04% (one phase more leads to over half a percentage point higher effective turnover tax rate).

In 1924, Canada introduced (single-phase) tax on the sale of certain finished products by manifacturers (6%, and after April 1924 – 5%). Austria also taxed the sale of goods only once – at the production stage. Italy only taxed retail sales (See Table 1).

Table 1. Operation of General Sales Tax in 1926

Country	Tax Rate (%)	Sales Taxed
Austria	2	Producers
Belgium	2	All sales
Canada	5	Manufacturers
Cuba	2	All sales
Czechoslovakia	2	All sales
France	2	All sales
Germany	0,75	All sales
Hungary	2	All sales
Italy	0,5 – 1,0	All retail sales
Philippines	1,5	All sales
Poland	2	All sales

Source: Buehler (1928).

All countries included in Table 1 except Austria taxed imports at the same rate that applies to domestic sales. In Germany and Czechoslovakia, imports were tax-free. In four countries (Belgium, Cuba, France and the Philippines) exports were taxed at the domestic sales tax rate, and in the remaining seven countries exports were exempt from sales tax (Buehler 1928).

Bulgaria introduced the turnover tax in 1946 with the Law of the Turnover Tax (Promulgated, SG, No. 302 of 31.12.1946, in force from 01.01.1947). Tax subjects were:

- the traders; and
- industrialists, artisans and semi-artisans.

The traders tax table included 10 groups of goods – foodstuffs and colonial; food, drink, entertainment and travel; clothing; household goods; construction, lubricant and fuel materials; paper and related materials and musical accessories; technical materials; tobacco; miscellaneous. Industrialists, artisans and semi-artisans are taxed according to a table with 3 groups. Tax rates were many and vary widely from below 1% to 12%. In some cases, the tax was determined in absolute amount per physical (natural) unit.

According to Art. 11 of the law "The turnover tax is borne by the taxable person, therefore it cannot be transferred to the consumer in the country."

In 1948, a new Law of Turnover Tax was adopted (Promulgated, SG, No. 22 of 29.01.1948, in force from 01.04.1948), which repealed the law of 1946. Tax objects were:

- the turnover of goods and materials produced in the country;
- the turnover of goods and materials imported from abroad; and
- the rewards for services.[21]

According to Art. 2 "For goods and materials that are used in the production of other goods taxable under this law, a separate tax is not paid when this is provided for in the tariffs."

The turnover tax was determined according to tariffs approved by the Council of Ministers and affirmed by the Presidium of the National Assembly (Article 2). They were two:

- Tariff "A" – for the tax on the turnover of goods; and
- Tariff "B" – for the tax on services.

Tariff "A" included 10 groups – mining works; agricultural works; forestry, industry, hunting and fishing; textile works; worked leather, rubber and articles thereof; metals; chemicals and chemical products; food industry; miscellaneous; goods and items not mentioned in the tariff. Tariff "B" is divided into 9 tariff

[20] Assuming 100% shifting of the tax burden forward.
[21] Art. 1 of the Law of Turnover Tax (Promulgated, SG, No. 22 of 01.29.1948, in force from 04.01.1948).

numbers. Rates vary between 1,5% and 77%. In some cases, the tax was determined in absolute amount per physical (natural) unit.

In 1951, the third Law of Turnover Tax was adopted (Promulgated, Notices, No. 91 of 13.11.1951), which repealed the law from 1948. The following are taxed with turnover tax:

- the turnover of state and cooperative enterprises and enterprises of public organizations from the sale of goods and materials;
- the rewards received by the state, cooperative and public enterprises and organizations for the services rendered by them;
- the turnover from the sale of tickets for theater plays and other performances and entertainments.[22]

Tax rates are determined by tariffs approved by the Council of Ministers (Article 3).[23] This law regulates the turnover tax in our country until 1994. During these 43 years, it has been amended and supplemented many times. In the last years of the law[24] for taxing consumer[25] goods and services (locally produced and imported) three rates are used:

- 2% – residential buildings, cables, wires and electrical panels, water meters, electricity meters, etc. (19 positions in total);
- 10% – food goods (9 items), non-food goods (9 items) and services (2 items);
- 22% – all other goods and services.[26]

No turnover tax was payable on turnover subject to excise duty.[27]

CONCEPTUAL FOUNDATIONS AND PRACTICE

The spiritual father of the concept of value added tax (VAT) was the German industrialist Wilhelm von Siemens (1885 – 1919). In 1919 he published a pamphlet entitled "Refined Sales Tax" (Siemens 1919). Two years after his death, his brother Carl Friedrich von Siemens (1872 – 1941) published a second expanded edition. (Siemens 1921, 24 pages). According to von Siemens, the existing "gross turnover tax" is unfair because it taxes businesses unevanly by favoring vertically integrated firms. Moreover, because of the cascading effect, it distorts the prices in the market. In his publication von Siemens claimed that a "net turnover tax", which subtracted "the prior turnover" of inputs from a taxpayer's "gross turnover" will provide sufficient revenue to the treasury by treating German business fairly. "At the end of the fiscal year the prior turnovers are to be added together and deducted from the total value of the gross turnover; the remaining balance (the net turnover) is subject to tax."[28]

The logic presented by von Siemens is simple. Let's take the numerical example from section 1 of this article (see above) – a product worth BGN 100 goes through 4 phases – from producer 1 to producer 2 (I), from producer 2 to a wholesaler (II), from the wholesaler to the retailer (III) and from the retailer to the final consumer (IV), with each economic agent before the final consumer adding 25 BGN of value (25 + 25 + 25 + 25 = BGN 100). With a tax rate of 1% and *multi-phase taxation of the net turnover,* the total tax on the final product will be BGN 1 (collected in 4 parts along the chain), and the final price for the consumer – BGN 101,00 (effective tax rate 1%) – see Table 2.

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[22] Art. 1 of the Law of Turnover Tax (Promulgated, Notices, No. 91 of 13.11.1951).
[23] According to Art. 31 upon the entry into force of the law "Current tariffs shall remain in force until repealed by the Council of Ministers."
[24] With the Law on Amendments and Supplements to the Law of Turnover Tax (Promulgated, SG, No. 19 of 08.03.1991), the name of the law was changed to the Law of Turnover Tax and Excises.
[25] Art. 1, para. 1 of the Law of Turnover Tax and Excises (Promulgated, Notices, No. 91 of 13.11.1951). In other words, the turnover tax was single-phase.
[26] Tariff for turnover tax, Appendix No. 1 to Art. 1, para. 1 of the Law of Turnover Tax and Excises (Promulgated, Notices, No. 91 of 13.11.1951).
[27] Art. 1, para. 1 of the Law of Turnover Tax and Excises (Promulgated, Notices, No. 91 of 13.11.1951).
[28] Siemens (1921). Quote by: Mehrotra (2022).

Table 2. Multi-phase tax on net turnover (4 phases)

Economic agents	Gross turnover (BGN)	Prior turnover (BGN)	Net turnover (BGN)	Tax liability (BGN)	Accumulated tax on the product (BGN)
(1)	(2)	(3)	(4) = (2) – (3)	(5) = (4) * 0,01	(6)
Producer 1	25,00	0,00	25,00	0,25	0,25
Producer 2	50,00	25,00	25,00	0,25	0,50
Wholesaler	75,00	50,00	25,00	0,25	0,75
Retailer	100,00	75,00	25,00	0,25	1,00

If the same product with a value of BGN 100 goes through not 4, but through 5 phases (the economic agents before the final consumer are three producers, a wholesaler and a retailer) and at each phase a value of BGN 20 is added (20 + 20 + 20 + 20 + 20 = BGN 100), the total tax on the final product will again be BGN 1 (collected now in 5 parts along the chain), and the final price for the consumer – BGN 101,00 (effective tax rate 1%) – see Table 3.

Table 3. Multi-phase tax on net turnover (5 phases)

Economic agents	Gross turnover (BGN)	Prior turnover (BGN)	Net turnover (BGN)	Tax liability (BGN)	Accumulated tax on the product (BGN)
(1)	(2)	(3)	(4) = (2) – (3)	(5) = (4) * 0,01	(6)
Producer 1	20,00	0,00	20,00	0,20	0,20
Producer 2	40,00	20,00	20,00	0,20	0,40
Producer 3	60,00	40,00	20,00	0,20	0,60
Wholesaler	80,00	60,00	20,00	0,20	0,80
Retailer	100,00	80,00	20,00	0,20	1,00

In the 1920s Thomas Adams (1873 – 1933), Professor of Political Economy at Yale University and advisor to the US Treasury Department, proposed repeal of the excess profits tax[29], reduction in the top individual income tax rates and introduction of *a new type of consumption tax* – a "modified business sales tax" (Adams 1921). In essence, Adams's idea is analogous to von Siemens'—taxing manufacturers, wholesalers, and retailers on what he calls "modified gross income" or the value that businesses added in the process of producing, distributing, and selling goods. "In the case of producers and sellers of "goods, wares, and merchandise" further simplicity could be achieved, if desired, by giving the tax the form of a sales tax with a credit or refund for taxes paid by the producer or dealer (as purchaser) on goods bought for resale or for necessary use in the production of goods for sale." (Adams 1921). This part of Adams' proposal is probably the conceptual basis of the modern credit invoice method of value added tax. The US Congress rejected Adams' idea, along with several other bills to introduce a federal consumption tax.[30]

In 1949, the American professor at Columbia University and senior official at the US Treasury Department Carl Shoup (1902 – 2000)[31] arrived in Japan as leader of the post-World War II American mission to reconstruct the Japanese fiscal system. One of the innovative suggestions of the Shoup's mission was Japan to adopt value added tax at the prefecture level in place of existing enterprise tax (a tax on business profits) (Mehrotra 2012). The idea was to calculate the tax base by deducting the costs of purchases from sales revenue (the so-called subtraction method of VAT). The tax rate was to be of 4 to 6%. The proposal met strong resistance in Japanese society (workers, business, etc.). The introduction of the tax was postponed several times and (finally) in 1954, Japan decided not to apply VAT. However, the novelty of Shoup's recommendation earned him the title "intellectual father of the value-added tax." (Thirsk 1991).

After the end of World War II, France considered a radical tax reform. In 1946 was established a Committee on Tax Reform, composed of representatives of the government, the trade unions, tax officials, different experts and taxpayers. The General Confederation of Labour (dominated by the communists) made one of the first (and most comprehensive) proposals for tax reform. The trade union proposed changes in almost all taxes, incl. the introduction of value added tax (with a singe rate of 10%) in place of the existing production tax and transactions taxes. Some members of the Committee on Tax Reform supported the idea,

[29] A tax on businesses that benefited from wartime economic conditions.
[30] A century later, there is still no federal value added tax in the USA.
[31] Shoup's dissertation was on sales tax in France. In 1930, it was published as a monograph (Shoup 1930).

but the majority was against it (Lynch 1997).

In 1950, the Korean War (1950 – 1953) began – the first hot conflict of the Cold War. During the course of the war, the US pressured France (an ally of the US) to increase its military spending. These American claims were a serious threat to the already deficit French budget. Decisive measures were needed to raise public revenues. In April 1952 the Commission on Productivity and Taxation (established in January 1952) published an official report which for the first time strongly recommended the adoption of VAT in France. The principal author of this report was Maurice Laure (1917 – 2001)[32], one of the few who supported the proposal to introduce VAT in 1947-48. In 1953 Maurice Laure published his book "The Value Added Tax" (Lauré 1953, 133 pages) in which he drew the outlines of the VAT system on the basis of a French production tax.

On April 10, 1954, France introduced a value added tax. The Law of 10 April 1954 replaced the production tax by VAT allowed the deduction of 100% of VAT on capital goods. Initially, the application of VAT was limited to the production sector. A year later, it was extended to the wholesale, and until 1968 it also included the whole retail sector. For his pioneering contribution to the introduction of VAT, Maurice Laure became known as the "Father of VAT".

In the first 10 – 15 years, the French experience did not have many followers (Cote d'Ivoire, for example, introduced VAT in 1960). In 1967, the Council of the European Economic Community (EEC) adopted the First VAT Directive[33] and the Second VAT Directive[34] – the basis of the harmonization of consumption taxation (in the form of VAT) within the EEC.[35] The main provisions of the two directives can be systematized as follows:

- a prohibition on the use by the Member States of turnover taxes;
- an obligation binding Member States to employ VAT;
- an obligation binding them to adjust their domestic VAT legislation so as to conform to the VAT system in the EEC legislation.

The Third, Fourth and Fifth VAT Directives (Directives 69/463, 71/401 and 72/250, [1969] OJ L320/34, [1971] OJ L283/41 and [1972] OJ L162/18, respectively) were concerned essentially with altering the dates for the implementation of VAT in Italy and Belgium.

The Sixth VAT Directive[36] marked a new stage in the development of the VAT system – further limiting the freedom of member states with special emphasis on the harmonization of the tax base. It was to be implemented by the Member States by January 1, 1978.

At the beginning of the 1990s, with the movement towards the completion of the "single internal market", Council Directive 91/680/EEC of 16 December 1991 was adopted. It inserted a new system for dealing with intra-Community transactions of goods and services. The new system was to be in place for a transitional period of four years (January 1, 1993 – December 31, 1996). From January 1, 1997, the transitional system had to be replaced by the definitive system for dealing with intra-Community transactions. Despite the further harmonization of VAT, the definitive system was not adopted and intra-Community transactions remain governed by the transitional system. Over the next 10 years, VAT harmonization continued (with at least one directive per year).

In 2006, the First and Sixth VAT Directives (amended and supplemented over time) were recast and merged into one directive known simply as "the VAT Directive".[37] The next step was the implementation of the so-called "VAT Package" – modernization and simplification of VAT on services. Soon after, attention was also drawn to the need to combat fraud, the desirability of reducing administrative costs and the need to review the VAT on financial services. The most significant amendments to the VAT system concerned the place of supply of services, rules for the refund of VAT to taxable persons not established in the Member State of refund but established in another Member State, measures to combat tax evasion and fraud, reduced rates, etc. (2008 – 2010). In 2013, two directives dealing with combating fraud were adopted – Directive 2013/42 ([2013] OJ L201/1) – creation of a quick reaction mechanism for combating VAT fraud and Directive 2013/43 ([2013] OJ L201/4) – temporary application of the reverse charge mechanism to certain supplies of goods and services. One of the last important changes in the VAT system was made with Council

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[32] In 1952, Deputy Director of the new tax authority – the General Tax Directorate.

[33] First Council Directive 67/227/EEC on the harmonization of legislation of member states concerning turnover taxes.

[34] Second Council Directive 67/228/EEC on the harmonization of legislation of member states concerning turnover taxes — structure and procedures for application of the common system of VAT.

[35] Both Directives were to be implemented by the Member States by January 1, 1970. At that time, the EEC member states were six – Belgium, France, Germany, Italy, the Netherlands and Luxembourg.

[36] Sixth Council Directive 77/388/EEC of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes – Common system of value added tax: uniform basis of assessment.

[37] Council Directive 2006/112 ([2006] OJ L347/1), corrected with [2007] OJ L335/60.

Directive (EU) 2022/542 of 5 April 2022 amending Directives 2006/112/EC and (EU) 2020/285 as regards rates of value added tax.

In 2024, EU member states use four types of VAT rates:

- standard rate – from 17% in Luxembourg (the lowest) to 27% in Hungary (the highest);[38]
- reduced rates (maximum 2)[39] – from 5% in Cyprus, Croatia, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Romania and Slovenia (the lowest) to 18% in Hungary[40] (the highest);[41]
- super reduced rate[42] – France (2,1%), Ireland (4,8%), Italy (4%), Luxemburg (3%) and Spain (4%);
- parking rate[43] – Austria (13%), Belguim (12%), Ireland (13,5%), Luxemburg (12%) and Portugal (13%).[44]

Currently, all OECD member states except the US apply VAT. As of 2023, 175 out of a total of 193 UN member states use some form of VAT.[45]

VALUE ADDED TAX IN BULGARIA

On April 1, 1994, Bulgaria introduced a value added tax (Law of Value Added Tax (Promulgated, SG, No. 90 of 22.10.1993, in force from 01.04.1994), replacing the existing turnover tax.[46] The Law of Value Added Tax is structured into six chapters as follows:

- General provisions;
- Taxable and non-taxable transactions;
- Registration;
- Taxation;
- Documentation and reporting;
- Administrative penal provisions and property sanctions.

On the basis of §16 of the transitional and final provisions of the Law of Value Added Tax (Promulgated, SG No. 90 of 1993), the Minister of Finance issued Regulation for the implementation of the Law of Value Added Tax (Promulgated, SG, No. 17 of 25.02.1994).

According to the law and the regulation for its application, value added tax is imposed on transactions with goods and services. A transaction (within the meaning of the law) was the transfer of rights to goods or the performance of services, except for the pledge of goods, unless the pledge has become the property of the creditor. The transaction value was the amount determined by the parties excluding the tax. All transactions were taxable, with the exception of export transactions and exempt transactions listed in Art. 9 of the law (transfer of ownership of land, provision of financial, insurance, educational and health services, involvement in gambling, etc.). Every person with a taxable turnover for 12 months exceeding BGN 1,5 million was obliged to register under the Law of Value Added Tax within 14 days. A person with a turnover of up to BGN 1,5 million can be registered, as well as a person who rents out land or buildings as a place of business to registered persons. If the person's taxable turnover falls below BGN 1,5 million, he can request deregistration. Persons registered at their own request may request de-registration after the expiry of two years from registration.

The value added tax rate was 18%. Tax is charged on every taxable transaction made by the registered person. When carrying out an exempt transaction, an export transaction and a transaction with precious metals, for which the recipient is the Bulgarian National Bank (BNB), no tax is charged. According to Art. 24, para. 1 of the law tax credit is the amount of value added tax charged, which is subject to deduction or reimbursement from the state budget of the registered person who received the good or service or carried out the import. The right to deduct or refund the tax credit arises after the end of the tax period (1 or 3 months) during which the tax invoice, tax debit note or customs declaration was received. The tax to be paid by the registered person is determined for each tax period as the difference between the tax charged by that person and the amount of the tax credit. When, for a certain tax period, the amount of the tax credit exceeds the

[38] The standard VAT rate cannot be lower than 15%.
[39] All EU member states except Denmark use one or two reduced rates.
[40] The second one (Hungary applies two reduced VAT rates – 5% and 18%).
[41] The reduced VAT rates cannot be lower than 5%.
[42] This rate is only used on very few products and services.
[43] Some EU member states apply "parking" (or intermediate) rates for certain goods and services which are not included in Annex III of the Council Directive 2006/112/EC of 28 November 2006.
[44] The parking VAT rate cannot be lower than 12%.
[45] https://www.vatcalc.com/global/how-many-countries-have-vat-or-gst-174/ (last visited on 12.03.2024).
[46] The Law of Turnover Tax and Excises (Promulgated, Notices, No. 91 of 1951) was repealed by the Law of Excises (Promulgated, SG, No. 19 of 02.03.1994).

total amount of tax charged by the registered person, the difference is reimbursed to the registered person from the state budget within 30 days from the submission of the reference-declaration.

The more important amendments to the Law of Value Added Tax 1993 (for five years) were:

- increasing the threshold for compulsory registration to BGN 7,5 million for 12 months in 1996 and to BGN 75 million in 1997;
- granting the right for (voluntary) registration to persons with a turnover of up to BGN 75 million, who in the last 12 months have carried out non-exempt export transactions (1997), worth more than BGN 50 million (from 01.01.1998);
- increasing the tax rate to 22% (1996);
- cancellation of the right to deduct a tax credit when the good or service is used to make exempt deliveries;
- introduction of a partial tax credit (when the registered person carries out both taxable and exempt transactions, and when receiving the goods or services cannot determine what part of them is used to carry out taxable transactions and what part – for exempt transactions);
- change in the refund tax regime – in 1996, the refund of the positive difference between the tax credit and the total amount of tax charged by the registered person within 30 days from the submission of the reference-declaration was replaced by a set-off and refund procedure, and in 1997 – with a procedure of set-off, deduction and refund of the tax for refund.

In 1998, a new Law of Value Added Tax was adopted (Promulgated, SG, No. 153 of 23.12.1998, in force from 01.01.1999), which repealed the law from 1993. It made certain changes, clarified and improved the regulations of the value added tax, including:

- enrichment of the conceptual apparatus;
- reducing the tax rate to 20%;
- introduction of the so-called zero tax rate (for the export and supply of precious metals, for which the recipient is the BNB);
- changing the procedural rules for registration and de-registration;
- regulation of the interaction between the tax administration, customs, the Ministry of Internal Affairs, the prosecutor's office and other state bodies and the information exchange.

On the basis of §10 of the transitional and final provisions of the Law of Value Added Tax (Promulgated, SG, No. 153 of 1998), the Minister of Finance issued Regulation for the implementation of the Law of Value Added Tax (Promulgated, SG, No. 19 of 02.03.1999).

In 2006, the third Law of Value Added Tax (Promulgated, SG, No. 63 of 04.08.2006, in force from 01.01.2007) was adopted, which repeals the law from 1998 and is still in force today (with numerous amendments and additions over the years). The adoption of this new law was a response to the need for final harmonization on the eve of Bulgaria's full membership in the EU. The new things were mainly in the spirit and letter of the current EU VAT legislation.

On the basis of §3 of the transitional and final provisions of the Law of Value Added Tax (Promulgated, SG, No. 63 of 2006), the Minister of Finance issued Regulation for the implementation of the Law of Value Added Tax (Promulgated, SG, No. 76 of 15.09.2006, effective from 01.01.2007), which is still in force today (with numerous amendments and additions).

The current Law of Value Added Tax is structured in nine parts:

- General provisions;
- Taxation of deliveries;
- Taxation of imports;
- Taxation of intra-community acquisition;
- Tax rates and determination of tax liability;
- Obligations of persons;
- Specific cases;
- Special order of taxation;
- Other provisions.

The value added tax objects are:

- every remunerative taxable delivery of good or service;
- every remunerative intra-community acquisition with a place of execution on the territory of the country, carried out by a registered person or by a person for whom an obligation to register has arisen;
- every remunerative intra-community acquisition of new vehicles with a place of performance on the territory of the country;

- every remunerative intra-community acquisition with a place of performance in the territory of the country of excise goods, when the recipient is a taxable person or a non-taxable legal entity that is not registered under the law;
- the import of goods.

According to the law, a taxable person is any person who carries out an independent economic activity. The state, state and local authorities are not taxable persons for all activities or deliveries carried out by them in their capacity as a state or local authority (with certain exceptions).

There are three tax rates:

- 20% (standard);
- 9% (reduced);
- 0% (for the export).

Every taxable person who is established on the territory of the country, with a taxable turnover of BGN 100 000[47] or more for a period not longer than the last 12 consecutive months before the current month, is obliged to register for VAT. The law also provides other grounds for mandatory VAT registration. Any taxable person who does not meet the conditions for mandatory registration has the right to register for VAT. Registration is terminated at the initiative of the registered person when there is a reason for deregistration (mandatory or optional) and at the initiative of the revenue authority (when it has established a reason for mandatory deregistration or under certain circumstances listed in Article 176 of the law).

CONCLUSION

At the beginning was the excise tax – a tax on specific goods and services. Soon after it arose the turnover tax – a tax on all goods and services. In order to eliminate the harmful cascading effect of the multi-phase turnover tax in the 20s of the last century, the idea of a new tax technique was born – a multi-phase tax on the added (in production and trade) value. In 1954, France (the first in the world) introduced a value added tax. The French experience spread to many countries in Europe and the world. Bulgaria introduced the value added tax on 01.04.1994, replacing the existing turnover tax. Currently, over 90% of all countries in the world apply VAT.

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