International Conference at the Brno University of Technology,
Faculty of Business and Management, September 16-17, 2021 Brno, Czech Republic
Perspectives of Business and Entrepreneurship Development: Digital Transformation for Business Model Innovation

Bulgaria in the OECD corporate tax reform: Assessing the opportunity for a 3.0 tax reform

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Abstract

Purpose of the article The OECD has recently launched an epochal reform of the international tax law framework originally established in the early days of the twentieth century. Through its two pillars, the change aims at smoothing the remaining anachronistic assumptions which have made this corpus's approach ineffective. Namely, it addresses the issue of companies' trans-national reach to reduce the room that big corporations have to engage in base erosion and profit shifting (BEPS) to reduce their overall tax burden and gain an undue competitive advantage on less tentacular organisations. Against such a complex background, this paper deals with the need for Bulgaria, one the 130 countries and jurisdictions that accepted the OECD's proposal, to rethink its domestic tax laws. Styling itself as a policy paper, the text analyses two possible policy alternatives: (i) simply propping up the flat corporate-tax rate from 10% to 15% and (ii) restructuring the corporate-tax regime on the American Tax Code's model through higher rates, a detraction for asset depreciation, and other tweaks. The effect of these reforms is evaluated through an appositely ideated model with a neo-classical backbone and a Keynesian Tax-Feedback component. Purpose of the article the article aims at investigating the impact of the recent OECD proposal to reform corporate tax rates on Bulgaria with specific focus on how fiscal policy can both adjust to these changes.

Methodology/methods Through a literature review, the paper will identify some of the key determinants of a schematic neoclassical economic model describing a small, open economy such as Bulgaria's. Then, it will apply construct an original model to assess the effects of the two proposed reforms on wages' and corporate incomes' growth in Bulgaria.

Scientific aim The paper contributes to the extant literature in two ways. First, it summarises the entant literature on neoclassical modelling, focusing on how to integrate discretional fiscal policy in such a framework. Second, by analysing two simple policy recommendations, it provides a clear guide to Bulgarian policymakers as to how to prepare for the upcoming changes in the international corporate-tax framework — something which, to date, is missing.

Findings Scholars have underutilised neoclassical models in the analyses of small, open economies such as Bulgaria's. Yet, their relative flexibility and the possibility to tweak and further deepen their assumption and functioning makes these model best suited to account for the entanglement of digitalisation, globalisation (both generally and, more specifically, in the guise of EU membership) and post-socialist transformation. On the policies suggested, the restructuring of Bulgaria's corporate tax appears superior (in a Paretian sense) to a mere rate hike. However, political feasibility and international tax competition – including within the EU – make it a rather un-likely realisation in the upcoming months.

Conclusions Due to the relevance of political and societal factors, this paper concludes that small, open economies such as Bulgaria cannot afford to reform their (corporate) tax regime on their own. Rather, they need larger partners (e.g., Germany, France, Italy) and blocks (i.e., the OECD and the EU) to press these changes and guarantee that no unfair competitive advantages will emerge between thightly integrated economies such as those of the EU. The main limitation of this study is potentially also its greatest strength. By focusing on the peculiar case of a small, open economy such as Bulgaria's, it reduces the scope of applicability of its policy recommendations. However, this very narrowness allows the paper to test assumedly consensual theoretical assumptions around model's workability and to provide more 'realistic' policy advice.

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Keywords: Fiscal policy, Digitalisation, Bulgaria, Knowledge-based economy, Taxation

JEL Classification: M15, M21