



THE EFFECT OF TAX-BENEFIT POLICY CHANGES ON THE INCOME DISTRIBUTION IN BULGARIA IN 2011-2015: AN ANALYSIS USING THE TAX-BENEFIT MODEL EUROMOD

Ekaterina Tosheva

University of National and World Economy,
Sofia, Bulgaria

Iva Tasseva

Institute for Social and Economic Research,
Essex University, UK

Venelin Boshnakov

University of National and World Economy,
Sofia, Bulgaria

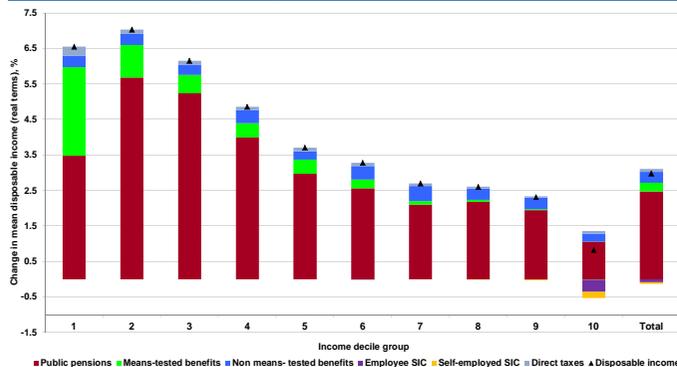
Dragomir Draganov

Institute for the Study of Societies and
Knowledge, Bulgarian Academy of Science

Introduction

- In 2014, 41.3% of Bulgarian population lived at risk of poverty or social exclusion compared to 40.1% in 2013 (the highest in the EU). Inequality is very high as Gini coefficient is almost 37% (2014).
- Thus, it is important to understand to what extent these negative developments are caused or maintained by public policies, and by tax-benefit policies in particular.
- The answer of this question is searched for through the analysis of household income distribution for the period from 2011 to 2015.

Real policy effect (2011-2015)



Method and data

Method: *EUROMOD Policy Effect Tool (PET)*

PET is an analytical instrument integrated in EUROMOD in 2015. It is used for assessment of changes in household disposable income **only** due to changes in tax-benefit policies.

Data: *Bulgarian EU-SILC 2012*

Income reference year 2011.

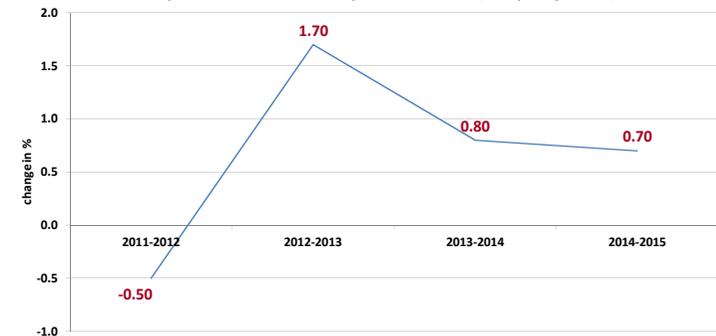
Sample of 5 679 households, 14 487 individuals.

Main results

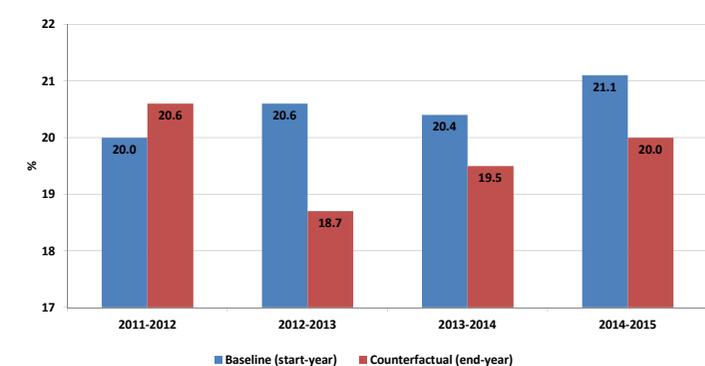
- Tax-benefit policies in Bulgaria resulted in modest positive real changes in household disposable income (+3% for the 2011-2015).
- Without implemented policy measures, headcount poverty rate would have been by 2.5 p.p. higher compared to 2011.
- The lowest-income households and elderly (65+) benefited the most from the changes in the tax-benefit system.

Real policy effects (year by year)

Mean equivalized household disposable income (real policy effect)



Headcount poverty rate (real policy effect)



Conclusion

- Policy stability was the main characteristic of the 2011-2015 period. This is why the tax-benefit system had a modest positive contribution to disposable household income dynamics.
- All income groups benefited from the policy changes. However, the biggest positive impact in real terms (+6-7%) is observed for the lowest-income households (first three decile groups) and households of elderly (65+). Indexation of public pensions was the main driver of these positive changes while the effects of other benefits was negligible (< 0.3%). Taxation policies remained practically unchanged and did not influence significantly the distribution of household income.
- These policy decisions actually cemented *the status quo* and therefore Bulgaria retained its place among the poorest and the most unequal societies in the EU.

References

Tosheva, E., Tasseva, I., Boshnakov, V., Draganov, D. (2016). *The effect of tax-benefit policy changes on the income distribution in Bulgaria in 2011-2015: an analysis using the tax-benefit model EUROMOD*. Economic Thought Journal, Sofia: Economic Research Institute, Bulgarian Academy of Sciences [In Bulgarian] (forthcoming)

Contact details

ekaterina_tosheva@yahoo.com; itasseva@essex.ac.uk;
venelinb@abv.bg; dragomir.k.draganov@gmail.com