Council of the
European Union

Brussels, 12 December 2025
(OR. en)

16801/25
ADD 3

FISC 371
ECOFIN 1739

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	11 December 2025
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2025) 421 annex
Subject:	COMMISSION STAFF WORKING DOCUMENT Mind the Gap Report Challenges and opportunities for tax compliance and tax expenditure in the EU - Bulgaria

Delegations will find attached document SWD(2025) 421 annex.

Encl.: SWD(2025) 421 annex

EUROPEAN
COMMISSION

Brussels, 11.12.2025
SWD(2025) 421 final

PART 4/29

COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU

Bulgaria

EN EN

Country fiche: Bulgaria

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Bulgaria has made progress in digitalizing its tax administration.** Bulgaria reported a 100% uptake in e-filing for CIT and VAT, with an increasing number of individuals also opting to file PIT returns electronically. There are also various online tools provided to help taxpayers comply with their tax obligations. The Bulgarian tax administration is also in the early stages of deploying AI technology.

Areas for Improvement

- **Bulgaria has a very large shadow economy, although some strategies are in place to tackle undeclared work and trace cash**. Furthermore, the PIT compliance gap in Bulgaria is estimated at 13.8%, indicating significant income underreporting from both self-employed individuals and employees. The sectors most prone to the underreporting have been identified as construction, wholesale and retail trade, hospitality, and manufacturing.

- **There is room to improve Bulgaria's reporting and evaluation capacity for tax expenditures.** Although reports on tax expenditures have been published since 2010, these reports only include a few tax types and do not provide a comprehensive analysis of fiscal policy implications. Moreover, there is no evaluation of the cost effectiveness of the tax expenditures in place. According to the Global Tax Expenditure Database, the revenue forgone in 2022 due to tax expenditure was 1.23% of GDP, up from 1.03% in 2021, when the revenue forgone represented 4.7% of total tax revenues.

- **Tax arrears in Bulgaria are above the EU average.** The level of outstanding tax arrears for Bulgaria (59.8%) was nearly double the EU average (30.7%) in 2023 although this is a substantial improvement compared to 2021 (81%).

1. Snapshot of Tax System: Tax Revenues and their Sources

In Bulgaria, tax revenues as a percentage of the country's GDP are significantly below the EU average. In 2023, total tax revenues amounted to 29.9% of GDP compared to the EU-27 average of 39.0% ([1]). The largest source of tax revenues were consumption taxes (42.5% of tax revenues vs. EU average of 26.9%), followed by labour taxes (36.2% of tax revenues vs. EU average of 51.2%) and capital taxes (21.3% of total revenues vs. EU average of 21.9%). Among the different tax types, VAT revenue amounted to 29.4% of total tax revenues (EU average of 18.3%) and 8.8% of GDP (EU average of 7.1%). Revenues from recurrent immovable property taxes are relatively low (0.2 % of GDP, compared to 0.9% in the EU-27).

The tax-benefit system contributes reducing inequality in Bulgaria only to a limited extent. In 2024, 30.3% of people in Bulgaria were at risk of poverty or social exclusion, which is over 9 percentage points higher than the EU average ([2]). Furthermore, the 2024 Gini Index for equivalised disposable income is well above the EU average (38.4% vs 29.3%) ([3]). The tax-benefit system reduced income inequality (measured as the difference in Gini coefficients before and after taxes and benefits) by 4.2 percentage points in 2023, the lowest value in the EU-27, compared to an average of 7.7 percentage points ([4]). There is a flat 10% PIT rate in Bulgaria and the lack of progressivity in labour taxation also contributes to the low ability of the tax and benefit system to redistribute income. The difference in the tax wedge ([5]) between high-income earners (167% of average wage) and low-income earners (67% of average wage) was slightly negative and the smallest the EU (-0.7 percentage points) in 2024.

Bulgaria faces several challenges within this context, such as maintaining fiscal sustainability with a low tax burden amidst existing economic pressures such as high deficits or debts. The reliance on consumption rather than labour or capital taxes limits the potential for revenue increase without reforms. In the concluding statement of their 2024 Article IV mission in Bulgaria, the IMF encouraged authorities to adopt a fiscal package that includes measures to permanently increase tax revenue and make the tax system fairer ([6]). Further, the associated Article IV Report ([7]) recommends "moving from the low flat corporate and personal income tax rates of 10 percent to higher and progressive (for PIT) rates" and increasing the coverage of carbon taxation.

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[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to an upward revision of tax revenue data for 2023 (to 30.0% of GDP), followed by an increase of total tax revenues to 30.5% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

[2] European Commission, Eurostat [ilc_peps01n]

[3] European Commission, Eurostat [ilc_di12]

[4] European Commission, DG EMPL calculations based on EU-SILC survey data.

[5] The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: Tax and Benefits Database.

[6] IMF Executive Board Concludes 2024 Article IV Consultation with Bulgaria

[7] https://www.elibrary.imf.org/view/journals/002/2024/163/002.2024.issue-163-en.xml?cid=550271-com-dsp-crossref

2. Monitoring of Compliance Gaps

2.1 Overview

Bulgaria's activities related to estimating tax gaps have been gradually developing in alignment with broader European efforts, particularly in the area of measuring the VAT gap. The establishment of tax gap analysis mechanisms in Bulgaria came about alongside the growing recognition across the EU for the need to address issues of tax non-compliance and enhance fiscal transparency. The country's involvement has increased in tandem with participation in regional initiatives like EU FISCALIS activities. Addressing and closing tax gaps could help Bulgaria to meet its fiscal targets and maintain economic stability, especially in view of ongoing commitments and structural objectives outlined by EU policies ([8]).

The National Revenue Agency (NRA) applies different approaches and methodologies for calculating tax gaps. In 2023, with the support of European Commission's Technical Support Instrument (TSI) ([9]), three econometric models were developed by an external independent contractor to measure (i) the shadow economy, (ii) the undeclared income and PIT gap, and (iii) the sectoral VAT gap. As a result of the project, the NRA has upgraded its analytic methods and working tools to address tax non-compliance issues and enhanced its capacity to use the upgraded analytic methods and working tools within the organisational framework of the Agency.

2.2 Monitoring VAT Compliance Gap

Bulgaria faces notable challenges in VAT compliance but still performs better than the EU average. It has a VAT compliance gap ([10]) that amounted to around BGN 1.5 billion (ca. EUR 800 million), or around 9% of the VAT Total Tax Liability (VTTL) ([11]) in 2023, which is below the EU average of 9.5% in the same year. In Bulgaria, the estimated VAT compliance gap fell sharply to 3% in 2021 from more than 9% in 2019, before increasing again to around 6% in 2022 ([12]). It should be noted, however, that the VAT compliance gap estimates for Bulgaria based on the VAT gap in the Europe report are of lower reliability, due to outdated data on the structure of intermediate use in exempt and non-taxable sectors, which are crucial for estimating the VTTL ([13]).

The decline in bankruptcy declarations (-17%) is likely to have had a mitigating effect on the rise of the VAT compliance gap. Similarly, the doubling of the VAT registration threshold to BGN 100 000

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[8] EY Bulgaria (2023), *Empirical analysis of non-compliance*.

[9] TSI (2021): Strengthening tax compliance by assessing external context and taxpayers' behaviour. EY Bulgaria (2023), *Empirical analysis of non-compliance*

[10] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[11] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

[12] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[13] Ibidem.

(EUR 51 120), coupled with new VAT recovery rules, may have exerted downward pressure on the VAT compliance gap by stimulating VAT revenues.

The strong growth in real value-added in services, translating into an increase in the share of services (+ 4 percentage points) may have contributed to the observed increase in the VAT compliance gap, as services are typically harder to tax effectively compared to traditional goods. Furthermore, recreational, restaurant, and accommodation services were among the fastest-growing categories in nominal household consumption (+22%), which may have further supported the negative development in VAT compliance.

A study by EY funded via the Technical Support Instrument ([14]), based on a different methodological approach and data sources, estimated a considerably higher VAT compliance gap for Bulgaria, amounting to 11.6% of potential VAT in 2021. According to the results, the share of micro-firms in the VAT base represented the largest contribution to the VAT compliance gap in most of the years analysed. Bulgaria's National Revenue Agency (NRA) makes annual assessments of the VAT discrepancy using the VAT gap model developed within this study. The model allows measurement of the VAT discrepancy for the country as a whole, as well as by sectors, and makes it possible to analyse the influence of key external factors. It can also forecast changes in the VAT discrepancy based on expected future changes in external factors. According to the results, the share of micro-enterprises and number of bankruptcies affect compliance negatively, whereby the increase in these factors between 2019 and 2021 has contributed to the overall increase in the VAT discrepancy. As the NRA expects the share of micro-enterprises to decrease in 2022, the VAT discrepancy is projected to decrease as well ([15]).

In 2023, VAT losses due to Missing Trader Intra-Community (MTIC) fraud ([16]) were estimated at around EUR 200 million in Bulgaria. They displayed an overall increasing trend until 2018, before stabilising. The VAT losses due to MTIC fraud increased by around EUR 100 million between 2010 and 2023 ([17]).

2.3 Personal and Corporate Income Tax Compliance Gaps, and Measures of the Shadow Economy

Bulgaria's activities related to CIT gap estimation do not include the publication of estimates. In the past, Bulgaria has indicated that it is performing or has taken steps to carry out specific national

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[14] EY Bulgaria (2023), *Empirical analysis of non-compliance*.
[15] Information from the National Revenue Agency.
[16] Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.
[17] European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader Intra-Community (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2778/6433841.

estimates of the CIT gap, using a bottom-up approach based on risk-based audits ([18]). However, national estimates are not publicly available.

European Commission estimates suggest a relatively low CIT compliance gap in Bulgaria. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using national accounts data, the CIT compliance gap of Bulgaria was at 7.8% of collected CIT revenues in 2018 (using the GVA-based methodology) ([19]). Based on the same methodology, the (unweighted) average for the CIT compliance gap is 10.9% of collected CIT revenues based on available estimates for 23 Member States.

In terms of potential revenues, available estimates for Bulgaria suggest a PIT gap of 13.8% and a social security contribution gap of 16.5%. As part of an empirical analysis of non-compliance conducted in the framework of a project funded by the EU Technical Support Instrument ([20]), the average PIT gap in Bulgaria was estimated at 13.8% of PIT potential revenue over the period 2017-2021 ([21]). For the same time span, average results also show that the social security contributions gap was 16.5%. of potential contributions, while unreported labour income was estimated to be 6.37% of GDP. The analysis uncovered significant income underreporting among both self-employed individuals and (especially) private sector employees in Bulgaria, although the size of the PIT gap appears to be underestimated when considering other estimates of the shadow economy ([22]). In fact, according to OECD ([23]), underreporting incomes is a widespread practice in Bulgaria and half of all taxpayers declare revenues at the minimum wage level which is the threshold according to which the social security payments are made for employees. Often, in addition to the minimum wage, workers receive other payments (so-called "envelope wages") that are not declared to tax authorities ([24]). Efforts to improve PIT compliance are ongoing, with strategies aimed at enhancing taxpayer education and utilizing digital tools to streamline reporting and payment processes ([25]).

Certain sectors seem to present higher risk for tax non-compliance. For example, the Bulgarian National Revenue Agency (NRA) and the Centre for the Study of Democracy (CSD) have highlighted

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[18] European Commission (2018), FISCALIS Tax Gap Project Group, Van Mierlo, A., Pütsep, T. and Nicodème, G., *The concept of tax gaps. Report II, Corporate income tax gap estimation methodologies*, https://data.europa.eu/doi/10.2778/83206

[19] European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/0541549. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

[20] TSI (2021): Strengthening tax compliance by assessing external context and taxpayers' behaviour

[21] EY Bulgaria (2023), *Empirical analysis of non-compliance*.

[22] See the study for the European Parliament discussed at the end of this Section.

[23] OECD (2023), OECD Economic Surveys: Bulgaria 2023, OECD Publishing, Paris, https://doi.org/10.1787/5ca812a4-en.

[24] Stefanov, R., C. Williams and P. Rodgers (2017), "Tackling undeclared work in Bulgaria: Knowledge-informed policy responses", GREY Policy Brief 1.

[25] EY Bulgaria (2023), *Empirical analysis of non-compliance*.

sectors such as construction, wholesale and retail trade, hospitality, and manufacturing as vulnerable to tax evasion and underreporting, particularly in the context of VAT fraud and undeclared labour ([26]).

The size of the shadow economy in Bulgaria is among the largest in the EU. In 2022, the shadow economy in Bulgaria represented 33.1% of its GDP, according to estimates by a study for the European Parliament ([27]). This ratio is almost 16 percentage points above the EU-27 unweighted average (17.5%) and has been following a slight increase over the past decade (31.9% of GDP in 2012). According to the report, the most significant drivers of the shadow economy in this country can be attributed to indirect taxes and unemployment. The EY analysis previously mentioned ([28]) used a different methodology and estimated the size of the shadow economy in Bulgaria at 11.3% of GDP, still considerably higher than the EU average of 7.1% of GDP. The report suggests that cash payments generate almost 90% of the shadow economy in Bulgaria.

In order to tackle the shadow economy, Bulgaria has put in place a threshold above which cash payments are not allowed or must be flagged to authorities. Furthermore, already in 2015, Bulgaria adopted a National Strategy to fight the shadow economy mainly targeting undeclared work ([29]). Furthermore, only 50% of citizens in Bulgaria agree that people pay taxes in proportion to their income and wealth, at least to some extent ([30]), which may contribute to a lower level of tax morale.

2.4 Other Compliance Gaps

There is currently no public information or evidence that Bulgaria estimates other tax compliance gaps. There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes, or capital taxes.

3. Monitoring of Policy Gaps

3.1. Tax Expenditure

Bulgaria shows stable tax expenditure in relation to its GDP. The official publication by the Ministry of Finance reports that the tax expenditure forecast for 2025 is estimated at BGN 1742 million (around EUR 890 million) ([31]), representing 0.80% of forecasted GDP ([32]). This is a very small decrease compared to the previous year (-2%). The largest tax expenditures in 2025 concern PIT with 37.3% of the total, followed by CIT (28.7%), VAT (24.3%) and excise duties (9.7%). Furthermore, according to the Global Tax

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[26] BG-UDW_factsheet-2023-fin.pdf

[27] European Parliament (2022), Taxation of the informal economy in the EU. https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf

[28] EY Bulgaria (2023), *Empirical analysis of non-compliance*.

[29] https://www.ela.europa.eu/sites/default/files/2024-02/BG_UDW_Factsheet_2017-Bulgaria.pdf

[30] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713

[31] Tax - Expenditure - Forecast_2025_EN_July 2025.pdf

[32] https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/bulgaria/economic-forecast-bulgaria_en

Expenditure Database (GTED) ([33]), the revenue forgone in 2022 ([34]) due to tax expenditure was 1.23% of GDP, while it was 1.03% in 2021, when the revenue forgone represented 4.7% of total tax revenues ([35]).

In Bulgaria, there is room for improvement in the reporting and evaluation of tax expenditures. Bulgaria applies the forgone revenue method ([36]). There is only a limited framework for tax expenditure reporting, with available information typically covering only a small number of tax types. The lack of comprehensive reporting prevents a full picture of fiscal policy implications. However, since 2012 reports on tax expenditures have been published annually by the Ministry of Finance.

Bulgaria lacks a robust process for systematic tax expenditure evaluation. While some ad-hoc or sector-specific evaluations might occur, a regularized impact assessment regime is not prominently established. Evaluations that do occur are often prompted by international obligations or targeted inquiries rather than as part of a routine national review process.

3.2. Monitoring VAT Policy Gap

The VAT policy gap ([37]) in Bulgaria was estimated to be the lowest in the EU in 2023. At approximately 34% of the notional ideal revenue ([38]), or BGN 9 billion (ca. EUR 4.6 billion), it is significantly below the EU average of around 51%. It has followed an overall rising trend over time, marking an increase of ca. 1.5 percentage points compared to 2022, and 4 percentage points compared to 2019 ([39]).

The VAT exemption gap ([40]) was estimated at almost 30% of the notional ideal revenue (BGN 8 billion or EUR 4 billion), which is lower the overall EU estimate of 38%. This constitutes an increase compared to 2022 (almost +2 percentage points), and an even larger increase compared to 2019 (+3 percentage points).

The VAT rate gap ([41]) was estimated at 4% of the notional ideal revenue, well below the EU average of 12%. It amounted to BGN 1 billion (ca. EUR 500 million). It has remained stable since 2022 but experienced an increase over time since 2019 (almost +1 percentage point). The increase since the pandemic can be explained by temporary VAT rate reductions for restaurants and tourist services

[33] It is important to remark that, differently from official estimates by Ministry of Finance, GTED considers the spent amounts instead of the budgeted amounts.
[34] Last available year.
[35] https://gted.taxexpenditures.org/country-profile/bulgaria/
[36] See, for example, [Tax - Expenditure - Forecast_2025_EN_July 2025.pdf]
[37] The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.
[38] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.
[39] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.
[40] The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.
[41] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

introduced in 2020, and VAT rate reductions from 20% to 9% on district heating and natural gas introduced in 2022. The latter is reflected in the slight increase in the portion of the VAT rate gap attributable to utilities.

The national policy-driven VAT exemption gap ([42]) was estimated in 2023 at around 6% of the notional ideal revenue (BGN 1.5 billion or EUR 800 million), lower than the EU average of 11%. This represented an increase compared to both 2022 and 2019 (+1.4 percentage points each).

4. Effectiveness of Tax Collection and Recovery Systems

4.1 VAT Collection

Bulgaria has improved with respect to VAT collection since 2020 but still needs to implement faster fraud control and stronger e-commerce and e-invoicing measures ([43]). Overall, Bulgaria has established foundational VAT administration processes. There remain opportunities for enhancing efficiency, improving compliance rates, and modernizing systems. The NRA is in the process of strengthening its tax fraud investigation capacity by implementing new data-analytics IT tool which will increase the effectiveness and efficiency of tax fraud control. The project is being implemented with support under European Commission's Technical Support Instrument ([44]). Bulgaria also publishes an annual activity report openly via the NRA, which is formally approved and integrated into risk management.

The Bulgarian tax administration provides online registration, VAT database maintenance, cross-checking with third-party data, and links IT registration to other systems Compared to other EU Member States, Bulgaria is progressing but still trails behind leaders like Poland and France in e-invoicing and real-time reporting. Key recommendations remain to improve taxpayer interfaces and strengthen EU interoperability. Bulgaria also Implements data analytics, profiling solutions, and automatic exchange of information with other national bodies and internal audit structures in place to monitor processes and follow up (NRA audit in 2024).

Bulgaria will begin the phased implementation of SAF-T from 1 January 2026. The project was supported by the European Commission’s Technical Support Instrument ([45]). Large companies will be covered by the first phase, with all VAT registered enterprises using SAF-T by 2030. SAF-T will require companies to submit detailed reports both monthly and annually, as well as on demand. The successful

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[42] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on reduced VAT rates and exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

[43] Commission’s Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, EUR-Lex - 52022DC0137 - EN - EUR-Lex. / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

[44] Implementation of SAF-T in Bulgaria - Reform Support - European Commission

[45] Ibid

implementation of SAF-T will help the NRA detect tax issues faster and conduct more targeted audits, while reducing administrative burdens and audits for compliant taxpayers.

Bulgaria still lacks a comprehensive register of e-commerce taxpayers. Furthermore, Bulgaria can take some time to deregister VAT registrations in the case of a fraudulent VAT claim, unlike some Member States that act within 15 days, Bulgaria's procedures can extend longer. Although Bulgaria has progressed in this aspect, Bulgaria still reports issues in fully limiting VAT cash payments and managing arrears with flexible IT systems.

Bulgaria has expanded online taxpayer services (access to data, reminders for deadlines, online interaction channels). These were limited in 2020 but are now systematically used ([46]). Bulgaria has significantly improved the use of data sets, analytics, and risk registers compared to 2020, aligning more closely with EU recommendations. Bulgaria has adopted EU collaborative tools, structured manuals, and quality monitoring represents a clear step forward from 2020. Additionally, Bulgaria has reinforced its quality monitoring systems by aligning with OECD and Eurostat standards, integrating evaluation mechanisms, and expanding internal audit coverage to support better governance and regulatory practices ([47]).

As regards the registration of taxpayers for VAT purposes, Bulgaria has made strides in the VAT registration process but encounters challenges concerning verification and integrity of registration data. There is room for Improving in the accuracy and completeness of the VAT database, performing systematic legal and ID verifications based on risk indicators and enhancing cross-checks with third-party information sources to ensure accurate identification.

Systems for tax filing and assessment in Bulgaria generally function well, though there are areas for improvement with regards to efficiency and ensuring more returns are filed on-time. Bulgaria could improve the facilitation of taxpayer access to their VAT data online to verify and update information conveniently. The Bulgarian tax administration could also strive for higher on-time filing rates through proactive measures and reminders. More comprehensive risk assessment methodologies and data integration could be highly useful. Bulgaria would benefit from the development of a compliance management plan that focuses on the main compliance threats, regularly monitors its execution and utilizes vast datasets for enhanced VAT compliance purposes. Audit and enforcement activities_are in place, but there is room for increased coordination and a more strategic focus on high-risk areas. Processes for payment and collection could benefit from further digitalisation and a reduction in the use of cash transactions.

Bulgaria faces challenges in streamlining debt collection processes to improve efficiency and minimize outstanding VAT liabilities. The focus in the field of improvement of the enforcement strategies and leveraging data for predictive insights into debt recovery are necessary steps forward. In the context of EU's Technical Support Instrument (TSI), Bulgaria is committed to support the digitalisation of tax and customs administrations ([48]).

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[48] TSI 2024 Flagship - Supporting the Digital Transformation of Tax and Customs Administrations - Reform Support

4.2 Recovery of Taxes

Bulgaria's tax recovery efficiency involves distinguishing between total tax arrears and collectible arrears, focusing efforts on recovering the latter. A risk-based approach targets high-risk debtors to optimize resource allocation and recovery rates.

Increasing use of digital tools and real-time information allows Bulgaria's tax administration to improve processes and track taxpayer obligations more effectively. Cost monitoring of recovery actions is not prominently detailed, suggesting room for the implementation of performance indicators for better assessment. Criteria for non-collectible debts include insolvency, lack of assets, and potential costs exceeding recoverable amounts, with fraud considerations also included. National policies set procedures for writing off uncollectable arrears to concentrate on viable recoveries.

Adoption of digital transformation and risk assessment integration are best practices aiding efficiency improvements. Bulgarian law sets forth the same rules for recovery of all public claims by the competent authority (the National Revenue Agency), including those submitted through mutual assistance requests. With regard to collecting public liabilities of the debtor, a single enforcement case is opened, and the newly incurred liabilities are affiliated thereto. Challenges remain with unrecovered debts due to passive methods, insufficient digitalisation, and legal constraints. Bulgaria has observed that when it comes to domestic claims, mutual assistance involving information about pending VAT refund requests is successfully used to increase recovery rates, However further reinforcement of recovery should be considered. Putting legislation in place that would allow the tax recovery authorities to exchange information with the administrator of the insolvency proceedings would alleviate that situation. This could also encompass cross-border situations concerning assets that could be used for the recovery of the unpaid claims in the insolvency proceedings

Tax arrears in Bulgaria are above the EU average. The level of outstanding tax arrears for Bulgaria (59.8%) was nearly double the EU average in 2023 (30.7%) although this is an improvement compared to 2021 (81%). This is the closing stock of arrears at year end as percentage of total revenue collected. The percentage suggests that the tax administration is facing challenges to collect the taxes owed. Of the closing stock of arrears, Bulgaria considers 19.4% to be collectible in 2023. This percentage is less than half of the 2021 figure ([49]). Bulgaria has a writing off practice regarding all public claims primarily based on expired limitation period, including ex officio. Furthermore, it is within the competence of the Management Board of the National Revenue Agency to review and approve decisions for writing off tax claims for liabilities up to BGN 100 (EUR 51.12), for which the collection costs exceed the amount of the liability.

Elements of Bulgaria's Recovery and Resilience Plan particularly those on digitalisation and modernisation of public administration indirectly support improvements in tax collection and recovery efficiency. Country-specific recommendations highlight ongoing needs to boost tax compliance and efficiency, encouraging further reforms and technology use.

[49] Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", http://isoradata.org

4.3 Use of Directive on Administrative Cooperation (DAC) ([50]) Instruments and Data ([51])

Bulgaria uses DAC1 ([52]) and DAC2 ([53]) data for assessing taxation on individuals in the field of personal income tax. DAC1 (categories of income) ([54]) and DAC2 (financial accounts) data is currently used for domestic risk assessment analysis ([55]), for general audits, and for tax recovery purposes, which is particularly relevant to reduce tax gap.

DAC data matching rates concerning individuals ([56]) are unknown. Bulgaria has recently introduced a system for automatic matching of all DAC1, DAC2 and DAC7 ([57]) data, but the system needs to be further developed to improve its efficiency, as services are unable to provide matching rates. The lack of feedback from Bulgaria to the other Member States also makes the use of data less efficient, and this is a point which needs to be substantially improved.

Due to resource constrains, Bulgaria does not use DAC3 ([58]) data (rulings) and makes a very limited use of DAC4 (country-by-country reports) ([59]). DAC4 reports are not matched systematically, and data are used for further enquiries into the MNE Group's transfer-pricing arrangements or into other tax matters in the course of tax audits.

Bulgaria uses the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits. The synergies between participating Member States derived from these coordinated activities usually lead to an increase in the tax assessed and, therefore, contribute to reducing the tax gap. Looking at the past three years, Bulgaria initiated 2 simultaneous

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[50] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended.

[51] Source: Yearly Assessment 2025, EU AIAC Statistics 2024 – Subject to confidentiality clause on Directive on Administrative Cooperation (DAC) art. 23a.

[52] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

[53] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

[54] Income from employment, Director's fees, Pensions, Immovable properties

[55] Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

[56] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.

[57] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation

[58] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

[59] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

audit and was involved in 9 other cases initiated by other Member States, being a relatively active player in the expansion of the use of these tools among the Member States.

In conclusion, Bulgaria is facing significant difficulties with the processing of data resulting from automatic exchange of information. While the tax administration has put in place measures to improve the situation, it must continue its efforts to make more systematic use of the data available, in order to increase the tax revenues that can be expected as a result of these exchanges. Bulgaria also needs to step up its efforts in providing feedback to the other Member States. In this view, the National Revenue Agency is receiving support under European Commission's Technical Support Instrument to improve its capabilities by stablishing appropriate methodologies, procedures, and IT tools, to better use the incoming data for risk analysis and audits, and increase the quality of the national data shared with other EU Member States.

5. Digitalisation and Compliance

Bulgaria's National Revenue Agency (NRA) is actively digitalising tax administration services, enhancing efficiency and taxpayer interaction ([60]). The adoption of electronic filing and payment options for taxes like VAT, CIT, and PIT simplifies compliance and improves service accessibility. While the NRA has made progress, advanced technologies such as blockchain are not yet widely integrated. Digital identity solutions are in use, facilitating secure access to e-government services and aligning with the "once only" principle, though full integration of this principle is ongoing. Efforts to connect governmental databases are crucial for reducing administrative burdens. Increased digital services boost user satisfaction and can lead to higher compliance rates.

Challenges remain in integrating additional digital tools, cybersecurity, and ensuring equitable access for all citizens. Opportunities exist to expand advanced technology usage, like blockchain, for better transparency and security. Continuous enhancements and service integration are necessary for achieving full digital transformation. Bulgaria's efforts align with EU standards, aiming for a more efficient, secure, and user-friendly tax administration system. According to a recent Eurobarometer survey, 42% of citizens in Bulgaria find it very easy or fairly easy to complete their tax return, placing Bulgaria 19th among EU Member States ([61]).

5.1. Digital Transformation Strategy, Skills, and Culture

Bulgaria is one of 4 EU Member States that has not developed a strategy for digital transformation, identified the future skills required by the administration for a successful digital transformation, or developed a strategy to build a digital culture within the administration. These three pillars are mutually reinforcing, and their absence can be seen as making Bulgaria less likely to

[60] NIFO_2024_Supporting_Document_Bulgaria_vFinal_2.pdf

[61] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713

design and put into practice processes which allow taxpayers to meet their tax responsibilities in a seamless way.

Bulgaria does however require individuals and businesses to use an approved digital identity to access secure digital services. Unlike businesses, some improvement is envisaged for individuals, whose access rate via digital identity is estimated to be between 61% and 80% ([62]). This would help to increase the accuracy of taxpayer identification, thereby reducing the potential of identity fraud, duplication of records and administrative errors. Access to NRA electronic services is carried out through nationally recognised electronic identification means, which include a qualified electronic signature (QES), a personal identification code (PIC), as well as e-authentication compatible with Regulation (EU) 910/2014 (eIDAS).

5.2 Front end Digitalisation

5.2.1 Pre-filling

As regards pre-filling for PIT, Bulgaria is among the best performers in the EU ([63]). In Bulgaria, prefilling facilities for tax returns have been increasingly developed to enhance taxpayer convenience and reduce administrative burdens. For PIT, prefilling services are more prominently available, where taxpayers can access pre-filled forms containing information already available to the tax authorities, such as employer-reported income. As of 2023, Bulgarian authorities have confirmed that income from interest and dividends, as well as pensions paid from the Supplementary Health Pension Insurance are automatically credited to PIT returns. This facility simplifies the filing process and helps minimize errors, streamlining tax compliance for individuals.

For CIT and VAT, prefilling services are not available in Bulgaria. Unlike some advanced EU countries where prefilling for CIT and VAT is more prevalent, Bulgaria's focus for these tax types tends to remain on facilitating electronic submission and ensuring compliance through digital channels rather than through automated prefilling. This indicates room for growth in aligning Bulgaria's CIT and VAT prefilling facilities with those of leading EU counterparts, which have implemented automated systems to reduce filing burdens for businesses.

The implications of expanding prefilling facilities would be significant. For taxpayers, prefilling can considerably reduce the complexity and time required for tax filing, leading to higher compliance rates and improved accuracy. By reducing manual entry, taxpayers are less prone to filing errors, thereby decreasing the likelihood of subsequent corrections and audits. For the tax administration, prefilling enhances operational efficiency by minimizing the need for data processing and validation, enabling a more focused allocation of resources on high-risk areas and strategic initiatives.

While Bulgaria has shown progress, particularly with PIT prefilling, its ability to extend similar facilities to CIT and VAT would further enhance overall compliance and taxpayer satisfaction. Continuous advancement in digital integration, along with robust collaboration with businesses and financial institutions for data sharing, will be essential. As other EU countries demonstrate the

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[62] OECD Inventory of Tax Technology Initiatives 2024. https://data-explorer.oecd.org/ - Stakeholder interactions: Registration channels, contacts and pre-filling. Notes: (1) Data is self-reported by tax administrations and therefore not 100 % objective or comparable.

[63] OECD Inventory of Tax Technology Initiatives 2024 (OECD Data Explorer • Inventory of Tax Technology Initiatives) - Derived indicators: Filing channels.

effectiveness of comprehensive prefilling systems, Bulgaria can benefit by investing in such technologies to ease the tax burden and optimize the efficiency of its tax administration.

5.2.2 E-filing

Bulgaria exhibits a full e-filing rate for VAT returns, with all businesses required to file electronically. This is in alignment with EU countries where VAT e-filing is widely adopted due to its efficiency and the streamlined processes involved. Over recent years, Bulgaria has maintained and slightly improved its VAT e-filing rates, reflecting robust digital infrastructure support for this tax type. E-filling VAT returns are 100% of all the VAT returns submitted in 2023 ([64]).

The e-filing rate for CIT in Bulgaria was 100% in 2023 and has remained at full uptake since 2018 (100%). This is higher than the EU average, which has increased slightly between 2018 (94.5%) and 2023 (97.1%) ([65]).

E-filing for PIT has trended in the right direction, but lags slightly behind CIT and VAT, which is common as individual taxpayers tend to have varied preferences and access issues. The increasing e-filing rate for PIT over the years suggests that more individuals are becoming comfortable with electronic submission platforms, supported by targeted educational campaigns and user-friendly systems. E-filling of PIT returns were 80.7% of total PIT returns submitted in 2023, which is slightly below the EU average (87.1%). This is a notable increase in Bulgaria compared to the. 41.3% of PIT returns submitted electronically in 2018 ([66]). Initiatives such as broadening internet access and improving IT infrastructure are vital components of Bulgaria's broader strategy to solidify a digital-first approach in its tax administration.

5.2.3 Provision of other online Services

In Bulgaria, the tax administration provides a variety of additional online tools and services to taxpayers to reduce compliance costs. These include tax calculators, and secure communication services through messaging, while it is not possible to request deadline extensions and asking payment arrangements. Notably, all channels of communication (messaging, video and phone) are available, which is not very common in the other countries. Taxpayers can also upload files onto the administrations system, access a personalised taxpayer portal, view information captured from third parties and use the tax administrations mobile application ([67]). Bulgaria's advancements in tax administration online services reinforce its commitment to modernizing tax processes and reducing taxpayer burden, aligning with broader EU digitalisation strategies. Continuous improvement and investment in technology will further strengthen these benefits, creating a more agile and responsive tax administration system. Bulgaria's tax administration has developed a range of online services aimed at improving efficiency, reducing the administrative burden on taxpayers, and enhancing compliance.

The National Revenue Agency (NRA) provides a taxpayer portal where individuals and businesses can manage their tax obligations, update personal information, and access various forms and

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[64] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

[65] Ibid.

[66] Ibid.

[67] 7. Taxpayer service - ISORA – tabs "Online services 1" and "Online services 2"

guidance materials. This portal enhances transparency and ease of interaction with tax authorities. Dedicated online tools such as tax calculators enable taxpayers to estimate their liabilities and plan accordingly. Simulators may also be available for specific tax credits or deductions, helping users understand potential benefits. Furthermore, the NRA has indicated that electronic services for submitting documents and tracking the movement of documents in the electronic registry are being developed and tested in the framework of digitalisation activities. It is planned that these services will be provided through the NRA's E-Portal from the beginning of 2026.

The NRA offers comprehensive guidance materials, including FAQs, detailed manuals, and legal frameworks, all accessible via the agency's website. This information supports taxpayers in understanding their obligations and available entitlements. These online services greatly reduce administrative burdens by providing easier access to necessary forms, facilitating compliance processes, and minimizing the need for physical visits to tax offices. This ease increases taxpayer satisfaction and compliance rates. Automation of routine tasks like filing and payment processing enhances overall efficiency and lowers error rates, as digital systems can provide immediate feedback and validation of entries.

While Bulgaria's online services are expanding, **challenges such as cybersecurity, data protection, and ensuring equitable access for all taxpayers remain, particularly for those less digitally literate**. Continuous updates and user-friendly innovations in online tax services are opportunities for Bulgaria to further streamline interactions, offering taxpayers the most efficient and supportive environment possible for their tax matters. According to a recent Eurobarometer survey, 48% of citizens in Bulgaria believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing Bulgaria 11th among EU Member States ([68]).

5.3 Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

According to the most recent assessments and available data, Bulgaria's tax administration is in the early stages of adopting artificial intelligence (AI) ([69]), much like many other tax administrations across the European Union. There is no progress in the implementation and use of innovative technologies-Artificial intelligence, including machine learning. From 2018 to 2022 Bulgaria is in the stage of implementing AI. In comparison to other EU countries, Bulgaria's progress with AI adoption in tax administration can be seen as developmental. The use of AI can significantly improve the efficiency and effectiveness of tax administration ([70]) by automating labour-intensive tasks, detecting anomalies in data patterns that may suggest fraud, and refining risk-based audits to focus on the most significant risks. For Bulgaria, this can translate into better resource allocation, reduced administrative burden, and improved tax compliance rates through early identification of non-compliance.

[68] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713

[69] Bulgaria AI Strategy Report - European Commission.

[70] AI in tax administration: Governing with Artificial Intelligence | OECD.

Bulgaria's current trajectory suggests openness to AI use but also highlights challenges such as the need for skilled personnel, investments in IT infrastructure, and overcoming initial implementation hurdles ([71]). Bulgaria has indicated that AI is in the "implementing" phase from 2018 to 2022, which suggests ongoing efforts but potentially signals challenges in full-scale adoption. Continued 'implementing' status for multiple years could highlight procedural, technical, or financial barriers that need addressing, such as acquiring the right talent, investing in scalable AI platforms, and mitigating privacy or data protection concerns.

Bulgaria remains poised to benefit from the broader EU support network and best practices sharing in deploying AI for tax administration ([72]). As AI technologies evolve and become more accessible, Bulgaria is expected to further leverage these innovations, enhancing its tax administration system and alignment with the digital transformation goals championed by the EU. The IT department of the NRA maintains and develops technological infrastructure used for the implementation of automated analyses, large language models for data evaluation and other digital solutions, in accordance with functional requirements of the various departments. in 2019, the NRA developed a predictive model to automatically identify missing traders and carousel fraud schemes. Reportedly, the model was developed based on a cooperation with the University of Exeter – Tax and Research Centre. The TNA system reduced the average time to detect missing traders by 15% and significantly increased the number of cases detected ([73]).

5.4 Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

Bulgaria has a formal compliance risk management strategy in place, **allowing for the identification, assessment and prioritisation of key compliance risks.** Almost all possible areas are covered by this strategy including return filing, collection enforcement, verification/audit and taxpayer service. The only area not covered by the strategy remains 'payment processing' ([74]).

Bulgaria's tax administration has implemented a Compliance Risk Management (CRM) strategy to enhance tax compliance and streamline enforcement processes. This strategy aligns with international best practices and emphasizes the identification, analysis, assessment, and prioritization of compliance risks. It supports the National Revenue Agency (NRA) by optimizing resources and focusing on areas with the highest potential for improving revenue collection and compliance. The strategy systematically analyses taxpayer data to identify non-compliance patterns, using risk indicators and periodic assessments to cover various taxes, including VAT, CIT, PIT and social security contributions, with a particular focus on high-risk sectors.

The CRM strategy aims to improve compliance rates by directing resources effectively to high-risk areas, ensuring that audit and enforcement actions are targeted where they can yield the most significant results. Its implementation allows for optimal resource allocation, reducing audit and

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[71] Bulgaria: Public Sector dimension of AI Strategy - European Commission.
[72] Bulgaria AI Strategy Report - European Commission- This report emphasizes Bulgaria's alignment with EU digital transformation goals and the importance of cross-country collaboration and support.
[73] Taxadmin.ai
[74] ISORA database, Table B.20 Compliance risk management Strategy.

enforcement costs while maximizing compliance. The strategy enhances taxpayer confidence through a transparent and consistent approach that is perceived as fair and objective. As Bulgaria refines this strategy, there are opportunities to incorporate advanced data analytics and AI to better predict and mitigate compliance risks. Despite challenges such as the need for robust data infrastructure and skilled personnel, the CRM strategy signifies Bulgaria's commitment to fostering effective enforcement and compliance, promising improved compliance, tax revenue outcomes, and a taxpayer-centric administration model. The areas are covered by this strategy including return filing, collection enforcement, verification/audit and taxpayer service.

5.4.2 Audit Types

Bulgaria's tax administration conducts the full range of post-filing audit activities to ensure compliance and integrity within its tax system ([75]). These activities are essential for verifying taxpayer declarations and identifying discrepancies or fraudulent activities. The Bulgarian tax administration performs desk audits, limited scope audits, single issue audits, comprehensive audits and avoidance and evasion investigations. Bulgaria's strategic deployment of various post-filing audit activities reflects its commitment to maintaining tax compliance and equity. By implementing a mix of audit types and pre-audit interventions, the tax administration aims to effectively manage resource expenditure while enhancing compliance across the taxpayer base.

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

Bulgaria's tax administration dedicates a significant portion of its Full-Time Equivalents (FTEs) to audit, investigation, and verification functions within the National Revenue Agency (NRA), demonstrating a strong commitment to compliance enforcement. The specific percentage of FTEs varies with annual reports and strategic focus but consistently underscores the importance of audit functions.. In Bulgaria, the percentage of FTEs assigned to audit, investigation and other verification functions was 47.5% in 2018 and 43.74% in 2023, above the EU average (32.1% in 2018 and 32.2% in 2023) ([76]).

The strategy around FTE allocation highlights a balanced approach in Bulgaria, where fostering voluntary compliance is prioritized, supplemented by targeted audits and verification efforts. A substantial focus on auditing FTEs could reflect a strategic response to detected non-compliance or potential tax evasion. Effective and efficient FTE use not only involves numbers but also strategic deployment, enhanced with technology and training to maximize audit effectiveness. Moving forward, Bulgaria is likely to continue refining this balance, integrating more digital and automated audit methods to enhance compliance enforcement, aligning with EU practices while addressing national objectives.

5.4.4 Revenue from Audits as a Share of Total Revenue

In Bulgaria, the additional revenues raised from audits was equal to 3.9% of total net revenue in 2018 and 2.66% of total net revenue in 2023 which is slightly above the EU average for both years (respectively 2.77% and 1.6%), while the decrease from 2018 to 2023 follows a similar trend to

[75] ISORA database, Table B.28 Compliance risk management Strategy.
[76] Own elaboration based on ISORA data

the EU average ([77]). This additional revenue varies yearly, influenced by economic conditions, compliance trends, and strategic focuses. However, this may indicate that the general levels of compliance are lower in Bulgaria than in other Member States, especially given the lack of AI technologies in place for risk identification in Bulgaria.

5.5 Tax Complexity

In 2024, Bulgaria ranked 21 out of the 27 Member States in the Tax Complexity Index ('TCI') ([78]), where a higher rank corresponds to lower tax complexity. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). Bulgaria scored 19th among the Member States with respect to Tax Framework Complexity and Tax Code Complexity. This suggests that Bulgaria has room to improve its tax system both in terms of tax processes (notably, in the area of guidance, according to the authors) and tax regulations (particularly, in the areas of transfer pricing and corporate reorganisation), thus making it more friendly and less burdensome for the taxpayer.

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[77] Ibidem

[78] See: https://www.taxcomplexity.org/ The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.