

VALUE ADDED TAX ACT

(CHANGES AND AMENDMENTS IN FORCE FROM 1.01.2006)

Changes and amendments to the Value Added Tax Act were published in State Gazette # 100/13.12.2005 entering into force from 1.01.2006.

Some of the important changes are summarized below.

I. **Lessee shall be entitled to VAT credit for the repairs of leased assets provided the term of the lease agreement is at least 3 years**

The repairs and/or improvement of a leased asset or asset granted for lease shall not be deemed a supply if the assets is leased or granted for usage for an uninterrupted period of 3 years. (Article 6"b" – new). At the same time the lessee shall be entitled to a VAT credit for the goods and services used for the repairs. (Article 64, paragraph 6 – new).

The aim of the change is to resolve a long contradictory and in our views improper practice of denial of a tax credit in case of repairs of leased assets.

The cases in place upon entering into force of this change are regulated under § 16 of the Law.

II. **The transfer of the right to construct is a VAT-exempt supply if made before construction of the roof and surrounding walls**

The addition aims to clarify the moment until which the transfer of a construction right is considered a VAT exempt supply. (Article 34, paragraph 1 third sentence).

It is also clarified that the construction right does not include the construction works that have been carried out.

III. **The state and local taxes and stamp duties shall not be offset from the amount of accrued VAT upon transfer of the title over a building or a part of a building**

Article 56, paragraph 1 allowing offsetting of state and local taxes and stamp duties from the amount of VAT due upon transfer of a title over a building or a part of a building is repealed.

The repealed provision used to create problems rather than alleviate the tax burden upon transfer of buildings.

IV. **Voluntary registration under the VAT Act requires a turnover of BGN 25,000 (in force from 1 April 2006)**

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Effective from 1 April 2006 the voluntary registration under the VAT Act shall be possible provided a turnover of BGN 25,000 is achieved. (Presently, the voluntary registration is possible upon achievement of a turnover of BGN 50,000).

The turnover upon which the VAT registration is mandatory remains BGN 50,000.

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