

**ACT AMENDING AND COMPLEMENTING THE PERSONAL INCOME TAX ACT  
(IN FORCE AS OF 01 JANUARY 2008)**

In State Gazette No. 113/28.12.2007 was promulgated an Act Amending and Complementing the Personal Income Tax Act which enters into force as of 01.01.2008.

Some of the most important amendments introduced by the Act are summarized below.

**I. AGGREGATE ANNUAL TAX BASE TAX**

**1. Aggregate Annual Tax Base**

The aggregate annual tax base is defined as a sum of the below mentioned annual tax bases reduced by the statutory tax reliefs:

- (a) tax base of the employment income,
- (b) tax base of other economic activity income under Art. 30 (“the Professions”),
- (c) tax base of rental income,
- (d) tax base of income from transfer of rights or property,
- (e) tax base of income from other sources.

The aggregate annual tax base does not comprise income from sole trader economic activity.

**(a) Employment Income**

- income not included in the taxable employment income
  - (1) The maximum total amount of the one-off benefits provided by the employer at the expense of the social expenses upon birth, marriage or death is fixed at BGN 2400 (Art. 24, p. 11 of the Personal Income Tax Act);
  - (2) It is specified that the remuneration payable by the employer for the first day of the sickness leave shall not be included in the taxable income (Art. 24, p. 14).
- deduction of social security contributions paid abroad from the annual tax base

The compulsory social security contributions paid abroad at the person’s expense shall be deducted from the employment income annual tax base. By virtue of Art. 50, para. 5 of the Personal Income Tax Act the amount of the social security contributions is evidenced via a certificate issued by the competent authorities of the other state.

**(b) Income from Other Economic Activity**

- statutory expenses

The statutory expenses for the different types of economic activity are set forth as follows:

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Tax	2008 Tax rates	2007 Tax Rates
<b>Employment Income Tax</b>	10%	progressive scale depending on income amount
<b>Economic Activity Income Tax</b>	10%	15%
<b>Tax on Income from Rent or Other Use of Rights or Property against Consideration</b>	10%	15%
<b>Sole Trader Income Tax</b>	15%	15%
<b>Final Tax on Foreign Persons' Income under Art. 37 of Personal Income Tax Act</b>	10%	10%
<b>Final Tax on Residents and Foreign Persons' Income from Share Exchange in relation to Company Re-Organisation</b>	10%	10%
<b>Final Tax on Residents and Foreign Persons' Income from Supplementary Voluntary Social Security and Health Insurance and from "Life" Insurances</b>	10%	15%
<b>Final Tax on Residents and Foreign Persons' Income from Sale or Exchange of Movable Property under Art. 13, para. 1, p. 2, letter "d" of Personal Income Tax Act</b>	10%	15%
<b>Final Tax on Dividend or Liquidation Proceeds Income*</b>	5%	7%

\* Under the new letter h) of p. 26 of § 1 of the Additional Provisions of the Personal Income Tax Act the relationships under management contracts, including those with members of company management and controlling bodies, are deemed to be employment relationships. It is our understanding that the income from such activities shall be taxable as employment income and not as income from other economic activities and no statutory expenses would be deducted.

#### (c) rental income

- statutory expenses

The statutory expenses are decreased from 20% to 10%.

#### (d) income from rights or property transfer

- acquisition price for the purposes of taxable income determination

The provisions on the acquisition price calculation for the purposes of taxable income determination have been extended.

In particular, the acquisition price upon construction right establishment and the acquisition price upon a follow-up sale or exchange of the real estate have been specified.

- tax treatment of installments paid under a terminated leasing agreements

The tax treatment of the installments paid during the preceding years in cases of premature termination of a leasing agreement has been regulated.

#### (e) tax reliefs

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- tax relief for persons with decreased working capacity

The sum of the annual taxable bases for persons having 50 and over 50% decreased working capacity shall be decreased by BGN 7920. The monthly tax base for employment income shall be decreased by BGN 660.

- tax relief for personal social security and insurance contributions and for personal length of security contributions upon retirement

The tax relief for personal social security and insurance contributions and for personal length of security contributions upon retirement has been preserved.

- children tax relief abolishment

The children tax relief has been abolished.

- donation tax relief

The tax relief for donations which is deducted from the sum of the annual tax bases has been preserved.

The potential donation beneficiaries do not, however, comprise disabled people, victims of crises, poor-living people, disabled children or children without parents, students in Bulgarian schools and universities as regards the established or provided scholarships.

## **II. Tax on the Income from Sole Trader Economic Activity**

- determination of the annual tax base

The annual tax base for income derived from sole trader economic activity is determined by decreasing the taxable income by the social security and health insurance contributions made at the person's expenses, including those paid abroad. The annual tax base determined this way shall be decreased by:

- (1) the additional voluntary social security installments amounting to a total of 10% of the annual tax base as well as by additional health insurance and "Life" insurance contributions amounting to a total of 10% of the annual tax base;
- (2) the difference between BGN 7920 and the amount of the tax relief for persons with reduced working capacity which has been used;
- (3) the difference between the personal length of security contributions upon retirement made during the year and the amount of the tax relief for personal length of security contributions upon retirement which has been used.

## **III. FINAL TAX**

### **1. Extending the Scope of Income from Bulgarian source**

The scope of income from Bulgarian source set forth in Art. 8, para. 6 of the Personal Income Tax Act has been extended to comprise the income from scholarships for studies in Bulgaria and abroad and the social security and insurance income.

### **2. Calculation of Final Tax**

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The provisions regarding the tax base for calculation of the final tax have been specified. The tax base for calculation of the final tax on the income from real estate transfer and from the installments received under a leasing agreement which expressly provides for transfer of ownership over real estate shall be the positive difference between the selling price and the documentarily evidenced acquisition price less 10% expenses. The tax base for calculation of the final tax on the income from transfer of financial assets shall be the positive difference between the selling price and the documentarily evidenced acquisition price.

#### IV. TAX RATES

The progressive scale of employment income taxation has been replaced by proportional taxation (flat tax) under a common rate of 10% regardless of the income amount.

The tax rates on income from the different sources are summarized below:

Tax	2008 Tax rates	2007 Tax Rates
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<b>Tax on Income from Rent or Other Use of Rights or Property against Consideration</b>	10%	15%
<b>Sole Trader Income Tax</b>	15%	15%
<b>Final Tax on Foreign Persons' Income under Art. 37 of Personal Income Tax Act</b>	10%	10%
<b>Final Tax on Residents and Foreign Persons' Income from Share Exchange in Relation to Company Re-Organisation</b>	10%	10%
<b>Final Tax on Residents and Foreign Persons' Income from Supplementary Voluntary Social Security and Health Insurance and from "Life" Insurances</b>	10%	15%
<b>Final Tax on Residents and Foreign Persons' Income from Sale or Exchange of Movable Property under Art. 13, para. 1, p. 2, letter "d" of Personal Income Tax Act</b>	10%	15%
<b>Final Tax on Dividend or Liquidation Proceeds*</b>	5%	7%

#### V. EXCLUSION OF THE PATENT TAXATION FROM THE PERSONAL INCOME TAX ACT SCOPE

The taxation of individuals and Sole Traders' income from patent activities has been excluded from the Personal Income Tax Act scope and shall be from now on provided for under the Local Taxes and Fees Act. As a result, when calculating the taxable income under the Personal Income Tax Act the income subject to patent tax, would not be included.

#### VI. TAX RETURN SUBMISSION

##### 1. Annual Tax Return Submission

- (a) tax return submission by Bulgarian tax residents for income from dividends and liquidation proceeds from a foreign source

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New! Bulgarian tax residents shall be obliged to file an annual tax return if they have derived income from dividends and liquidation proceeds from a foreign source during the year.

(b) tax return submission by foreign tax residents

Foreign tax residents would file an annual tax return regarding income acquired during the year and subject to aggregate annual tax base tax and/or patent tax.

**2. Submission of Tax Returns regarding Income Taxable with a Final Tax**

The deadline for submission of tax returns regarding income taxable with Final Tax shall be:

- (a) by the end of the month following the quarter of the tax payment - when the tax return is filed by the payer of the income;
- (b) in the time limits for tax payment under Art. 67, para. 1 of the Personal Income Tax Act - when the tax return is filed by the owner of the income.

**VII. OTHER CHANGES**

**1. Extending the Definition of “Employment Relationships”**

The provisions of Art. 26 of §1 of the Additional Provisions of the Personal Income Tax Act has been extended so that the definition of “employment relationships” shall already include the following:

- relationships related to lease of labour power from a foreign person when the work is performed in Bulgaria as well as relationships related to lease of labour power of a Bulgarian individual by a foreign person when the work is performed out of Bulgaria;
- relationships between the employer and a Bulgarian or foreign individual when the relationship is established by virtue of a lease of personnel agreement between the employer and a third person (the person who is party to the agreement for lease of personnel by a foreign person is deemed as employer);
- relationships under management agreements, including agreements with members of company management and control bodies.

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