

CHANGES TO THE CORPORATE INCOME TAX ACT

Changes have been introduced to the Corporate Income Tax Act. (Reference: State Gazette State Gazette No. 107 of 7 December 2004.). The changes come into effect as of 1 January 2005.

TAX RATES

Corporate Tax

The corporate income tax rate has been reduced from 19.5 to 15 per cent.

Alternative Taxes on Expenses

From 20 to 17 per cent has been reduced the tax on the following expenses:

- social fund expenses, expenses for the maintenance and use of motor vehicles and the tax on expenses for voluntary pension and health insurance, unemployment fund insurance as well as "Life" insurance made by the employer in favour of the employees which exceeds BGN 40 per month for each insured person.
- representation expenses, gifts (that do not bear the commercial trade mark of the company), donations and sponsorship.

In the case where the expenses for donations are made in favour of orphanages, foundations for the aid of socially disadvantaged people, handicapped, hospitals and medical institutions, the Bulgarian Red Cross, the religious organizations and other similar organizations, explicitly listed in the law, the expenses so incurred will not be subject to alternative corporate taxation. If the amount of these expenses is over 10 percent of the profit, the excess amount would be treated as an add-back.

Donations made in favour of the Center for "Medical Treatment of Children Fund" will be treated as a tax deductible expense up to 50 percent of the positive financial result and shall not be subject to alternative corporate income tax.

Donation expenses for computers and peripheral devices produced up to 2 years before the date of the donation made in favour of Bulgarian schools shall not be subject to adjustment for tax purposes.

The 15 per cent tax on donations made in favour of certain social, health, educational institutions and other such organizations, explicitly listed in the law, has been repealed.

Source Tax on Dividends and Liquidation Quotas

The tax at source on dividends and liquidations quotas accrued by local to foreign persons, has been reduced from 15 percent to 7 per cent.

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Upon certain conditions, the dividends and liquidation quotas paid to a partner/shareholder that is a resident of a member state of the EU will be exempt from tax at source.

Securities traded on the official market for securities in Bulgaria or a member state of the EU will be exempt from source taxation.

TAX RELIEFS

- Accelerated Depreciation

Accelerated depreciation up to 50 per cent will be applied for machines, production equipment and devices acquired after 31 December 2004. This relief would apply provided that the assets are part of an initial investment and are newly manufactured and have never been used prior to their acquisition.

- Donations Made from Reserves

Donation expenses from reserves and retained profit from prior years made in favour of certain specific organizations are no longer subject to deduction of the financial result.

CHANGES TO THE PRINCIPLES OF TAXATION

Alternative Taxation of Persons Performing Sea Trade Navigation

Persons that perform sea trade navigation can choose an alternative taxation regime on the basis of the net tonnage of the vessel for a term of at least 5 tax periods, provided that certain criteria are met.

Activities that do not meet the conditions for alternative taxation on the basis of net tonnage shall be subject to taxation under the general provisions of the law.

Suppliers of Telephone and Telecommunication Services

The final taxation of the remuneration of suppliers of telephone and telecommunication services has been repealed.

Insurance Companies

Insurance companies shall be taxable under the general taxation principles, i.e., instead of imposing an alternative tax on the income they will be taxed on the basis of income and expenses forming a taxable result.

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