

Amendments to the tax and social security legislation for 2015

23 December 2014

In brief

Changes in the tax and social security legislation published in the State Gazette No 105 from 19 December 2014 introduce new VAT rules for digital services in the EU, synchronize the Bulgarian rules with the EU law in the area of withholding tax on interests and royalty payments between related parties and in the area of tax reliefs which are minimal or state aid, introduce series of administrative reliefs as well as some other amendments to the tax legislation that may have an impact on you and your business.

Amendments to the Value Added Tax Act

New rules for digital services from 1 January 2015

The telecommunications, broadcasting and electronically supplied services rendered to EU non-taxable persons (e.g. private individuals, public bodies) will be subject to VAT in the country where the customer is established, has its permanent address or usually resides. Currently, such services are taxed in the country where the supplier is established. The new rules are expected to have a significant impact on the pricing strategies and the profit margins of the suppliers. In order to apply the correct VAT rate, the suppliers will need to collect information to identify the location of their customers.

In addition, under the new rules, the suppliers will be required to register for VAT purposes and pay VAT in

different EU countries where they have customers.

In order to avoid such administrative difficulties, a possibility for registration under the Mini One Stop Shop (MOSS) has been introduced.

Examples of services that will be impacted by the new rules include:

- Fixed and mobile telephone services
- Access to internet, website supply and webhosting
- Radio and television programmes transmitted over a network or distributed via the internet
- Supply of software and its update
- Supply of music, films, games, images, texts and information
- Distance maintenance of programmes and equipment
- Supply of distance teaching

Companies need to review the existing agreements and the services that they provide in order to assess the impact of the new VAT rules on their activity. If so, they will need to start as soon as possible to prepare for the changes, including to analyse the effect of the changes, to adjust their pricing strategies and to be ready for the compliance obligations.

De minimis aid for large investment projects

The applicable EU rules for de minimis aid are implemented and will be applied in terms of the VAT incentive for large investment projects. The term "single undertaking" is introduced meaning all enterprises having close relationships according to criteria provided in Regulation (EU) 1407/2013. The ceiling of EUR 200,000 (EUR 100,000 in specific cases) will be maintained as the amount of de minimis aid that a single undertaking may receive in Bulgaria over any period of

three years. De minimis aid for the investment project will be cumulated with other similar aid and certain State aid received for the same project.

Amendments to the Excise Duties and Tax Warehouses Act

Increase of excise duty rates on cigarettes

The excise duty rates on cigarettes will be increased gradually during the period 2016 - 2018 in order to reach the minimum required level as per the EU legislation of EUR 90 per 1,000 cigarettes.

New requirements for measuring and control devices

An introduction of new requirements for wider use of measuring and control devices is envisaged as well as the possibility for using the received data from these means by the customs authorities for establishing excise liabilities. The new rules will enter into force upon a positive decision from the European Commission.

Excise labels

Excise labels would not be required for certain nutritional supplements containing ethyl alcohol in packaging of up to 50 ml.

Appeals

Currently, the decisions of the customs authorities for assessment of additional amounts of excise duties should be appealed under the procedure of the Administrative Procedure Code. As of 1 January 2015, such decisions should be appealed under the procedure

envisaged in the Tax and Social Security Procedure Code.

Amendments to Intrastat

The Intrastat thresholds for 2015 have been increased as follows:

Arrivals - BGN 370,000
Dispatches - BGN 220,000

The thresholds for reporting statistical value under Intrastat will be as follows:

Arrivals - BGN 5,3 mln.
Dispatches - BGN 10,6 mln.

Amendments to the Tax on Insurance Premiums Act

As of 1 January 2015, the tax period for determining the tax on insurance premiums will be the calendar quarter (currently it is the calendar month).

The deadline for payment of the tax due will be the end of the month following the calendar quarter for which the tax is due.

Amendments to the Corporate Income Taxation Act

Exemption from withholding tax on interest and royalty payments

Income from interest and royalty payments made from local to EU entities when the payer and the recipient of the income are related parties will be exempted from withholding tax. Until now the WHT rate was 5% and this amendment fully implements Directive 2003/49/EC on the common

system of taxation applicable to interest and royalty payments into the Bulgarian legislation.

Changes regarding the tax reliefs which are minimal or state aid

The tax relief which by its nature is minimal aid („de minimis“) will be also applicable to the so called single undertakings under Regulation (EC) 1407/2013. With respect to the tax relief which is considered state aid for regional development, the law introduces a new requirement for submitting a state aid application form which notifies the territorial directorate of the NRA for the project for initial investment, including large investment project before the execution of the project has commenced. If the execution of the initial investment has started after 31 December 2013 but within the period for approval of the state aid for regional development from the European commission (until 31 March 2015), the application form must be submitted together with the annual corporate income tax return for 2014.

Amendments to the Local Taxes and Fees Act (LTFA)

Exemption from filing a declaration in certain cases of acquisition of property when it is free of charge and exempt from local tax

An exemption from the obligation for submitting a tax return has been introduced in cases of free of charge acquisition of property which itself is exempt from taxation (e.g. by virtue of the law, act of

the Council of Ministers, effectuated between direct relatives or spouses, or with NGOs which are enlisted in the public registry and some other categories).

Online filing of tax returns under the LTFA

Taxpayers will be able to file and submit electronically all kinds of tax returns under the LTFA.

Amendments to the Tax and Social Security Procedure Code (TSSPC)

As part of the new electronic services of the NRA, a new possibility has been introduced for taxpayers (individual and corporate) allowing them to file and submit tax and social security returns online by using a personal identification code (PIC), instead of the current requirement for an additionally purchased qualified electronic signature.

Amendments to the Personal Income Tax Act

Tax incentives for children and disabled children are introduced

Tax incentives for children which can benefit both local and EU/EEA established individuals have been introduced. The tax incentives for children provide for reduction of the total annual tax base calculated under the Personal Income Tax Act (PITA) with the following amounts: BGN 200 in case of one child, BGN 400 in case of two and BGN 600 in case of

three and more children. The conditions for this tax relief require that the child is underage, not placed in a specialized care institution as at 31 December of the fiscal year and is a resident of an EU/EEA Member State as at the same date. This relief can be used by a parent who is not deprived of parental rights, a guardian, a family member or close relative where the child is placed, or a foster parent. Only one parent (or foster parent or close relative) may benefit from this new tax relief and for this purpose the other parent will have to file a special declaration stating that he/she will not benefit from this relief.

Tax incentives for disabled children are also introduced and are applicable under certain specific conditions.

Extending the scope and fixing the tax rate on interest from bank accounts

The tax on interests from deposit accounts remains at the tax rate of 8% and the scope is extended to cover all types of bank accounts, not only deposit ones. Previously planned gradual reduction and eventual removal of the tax in 2017 has been abolished.

Correspondingly, the tax exemption on interest income from bank accounts (outside deposits which are already taxable) within the EU / EEA has been repealed and such income will also be subject to taxation under the PITA.

Repeal of the tax relief on income not exceeding the minimum wage

The tax relief for individuals receiving income not exceeding the minimum wage set for the country has been repealed.

Amendments in the area of social security

The lowest minimum insurance threshold has increased from BGN 340 to BGN 360 and the maximum threshold – from BGN 2,400 to 2,600 BGN. However, the amount of the contributions to various funds payable by both employers and employees remains unchanged.

The age threshold for retirement also remains unchanged - 63 years and 8 months for men and 60 years and 8 months for women. However, the required work experience necessary for retirement has been increased with four months, i.e. 38 years for the men and 35 years for the women.

Another change is related to the calculation of the maternity compensation which will now be done based on the insurance income for 24 months backwards, and not as it was up to now – 18 months backwards.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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