

## Changes in the tax legislation for 2023

### In brief

Changes to the Value Added Tax Act ("VATA"), the Corporate Income Tax Act ("CITA"), and the Personal Income Tax Act ("PITA") were promulgated in the State Gazette No. 102 from 23.12.2022 and No. 104 from 30.12.2022. Most of the amendments came into force on 1 January 2023.

Below you can find a summary of the most important changes:

### Changes in VAT taxation

#### Rules for recovery of VAT on bad debts

From 1 January 2023, suppliers of goods or services with bad debts will be able to recover the amount of VAT charged on the unpaid part of the price. The cases in which the receivable is considered to have become uncollectible are explicitly defined, as well as the other conditions that the supplier must fulfill. The refund of the VAT will happen with the issuance of a credit note or protocol, depending on whether the customer was registered for VAT at the time of the supply or not. In cases where a protocol will have to be issued, VAT will be recoverable only up to the difference between the VAT charged for the supply and the VAT credit claimed by the supplier for goods and services directly related to the supply.

If the customer makes a payment on the bad debt after VAT recovery was claimed, the supplier will be obliged to re-charge the relevant part of the VAT by issuing a debit note or a protocol.

## Obligation to adjust the VAT credit claimed by the debtor in case of bad debts

The debtor in case of irrecoverable debts will have to adjust the claimed VAT credit for the supply, based on the credit note received by the supplier.

## Changes to the reduced VAT rates

The reduced 9% VAT rate for baby food and hygiene products, and on books becomes permanent (it was due to expire at the end of 2022). A permanent reduced 9% VAT rate will also apply to the sale of physical or electronic periodicals such as newspapers and magazines as of 1 January 2023.

The reduced 9% VAT rate for restaurant and catering services, the use of sports facilities, and tourist operators services is extended until the end of 2023 (it was due to expire at the end of 2022). The 0% VAT rate for bread and flour is also extended until the end of 2023 (it was due to expire at the end of June 2023).

## Other changes in VAT taxation

Other significant changes include:

- specific rules are introduced for businesses not established in the EU to be able to apply 0% VAT rate for export of goods from Bulgaria to third countries. Until now, there was a discrepancy between the Bulgarian and European VAT rules, which made the application of the zero rate in these cases practically difficult or even impossible;
- explicit rules for claiming VAT credit in cases of correction of invoices by the supplier due to wrong treatment of a supply, including when established with a final tax assessment act;
- VAT exemption is introduced for the management of alternative investment funds that fulfill the criteria for special investment funds under EU law;
- no correction of the claimed VAT credit will be required in the case of goods being scrapped/written off due to elapsing of their expiration date, which is determined on the basis of company standards due to the absence of a regulatory act;
- some of the rules regarding the special One-Stop Shop registration regime for suppliers of goods and certain types of services to final consumers are clarified;
- under certain conditions, businesses that have an obligation to provide collateral in connection to the purchase or trade of liquid fuels, will be able to reduce the amount of the collateral by half;
- from 1 January 2024 payment service providers will have to maintain an electronic register of payment data in connection with cross-border payments and will have to report the information to the National Revenue Agency every calendar quarter.



## Changes in corporate taxation

### **The BGN 200 monthly threshold for tax-free food vouchers to employees becomes permanent**

The BGN 200 monthly threshold for tax-free food vouchers will become permanent when the regular state budget for 2023 is adopted later in the year. Currently, this threshold applies while the state budget for 2022 is in effect (including during its extension until the adoption of a regular budget for 2023).

### **Rules for the payment of a solidarity contribution for the excess profits of energy companies**

The temporary solidarity contribution was introduced by an EU regulation. It applies to taxable persons operating in the crude oil, natural gas, coal, and oil refining industries. The contribution is in the amount of 33% of the excess tax profit for 2022 and 2023 – defined as the excess over 20% of the average tax profit for the period 2018 - 2021.

The contribution will have to be declared with the annual tax return of the company and will have to be paid by 30 June of the following year. The company may choose to make advance payments for the amount. The amount of the temporary solidarity contribution will be a tax deductible expense for corporate tax purposes.

### **Changes to the rules for regional development state aid in the form of corporate tax holiday**

Certain changes are being introduced to the conditions for receiving regional development state aid, in order to comply with the new guidelines of the European Commission for the period until 2027. Some of the changes will enter into force after receiving an approval from the European Commission.





## Changes to the taxation of individuals

### **Tax relief for children and children with disabilities**

The tax relief may be used by:

- a parent who is not granted the exercise of parental rights in cases of divorce;
- a successor of an individual who has passed away during the tax year.

The reimbursed amount would not be subject to enforcement.

This tax relief would be applied for 2022 as well

### **Ability for declaring non-taxable income and income, taxed with final tax**

Bulgarian residents would be able to voluntarily report information for an extended scope of non-taxable income as well as income, taxed with final tax in the annual personal tax return under art. 50 of the Bulgarian Personal Income Tax Act (PITA).

### **Change in the scope of income which employers should report in the income statements under Art. 45 of the PITA and in the declaration under Art. 73, para. 6 of the PITA**

At the request of the employee, the employer should issue an income statement for non-taxable income from labor relations under Art. 24 of the PITA. The income statement should include the total amounts from food vouchers, paid non-taxable benefits, one-time benefits at the expense of social costs, non-taxable monetary and material prizes, etc. This applies to income paid in 2022 as well.

Employers should also report such types of non-taxable income in the declaration under Art. 73, para. 6 of the PITA. The change applies to income paid in 2022 as well.



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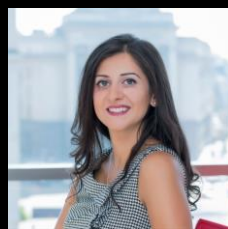
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