

# AMENDMENTS TO THE INDIVIDUALS' INCOME TAXES ACT

in force as of 1 January 2009

In the State Gazette issue 106 dated 12 December 2008 the Amendments and Supplementations Act to the Individuals' Income Taxes Act (ASAITA) was promulgated.

The main amendments are related to the following areas:

## 1. Exempt income

The scope of the provisions of art. 13 has been broadened and the following has been added to the exempt income:

- Gains from transactions with shares in public companies, tradable rights of shares in public companies and shares in collective investment schemes, realized on regulated stock markets in EU member-states or in states – parties to the European Economic Area Agreement (EEAA).
- Income from interest on deposits in commercial banks and branches of foreign banks, established in a EU member-state or in a country – party to the EEAA.

These amendments aim to avoid the non-equal tax treatment of such income arising in other EU member states.

## 2. Free-lance profession

The amendments related to taxation of income from free-lance professions are important and concern the following:

- Treatment of the amounts received as business trip allowances (accommodation, traveling and per diems). The amendments made to art. 13, i. 23 IITA achieve an equal tax treatment of the business trip allowances in cases of sending on a business trip persons hired under civil contracts (without registration as free-lance profession) and the persons engaged in free-lance profession.
- Calculation and payment of the advance tax. As of 1 January 2009 the persons engaged in free-lance professions shall calculate and pay the advance tax on their own on quarterly basis. The base for calculation of the advance tax payments shall be determined as a difference between the taxable income and the social security and health insurance contributions that the person is obliged to pay on his own account for the respective quarter.

## 3. Additional voluntary security, voluntary health security and life insurance in a EU member-state or a state party to EEAA

The existing definitions of additional voluntary security, voluntary health security and life insurance are supplemented by adding the respective activity (voluntary security, voluntary health security and

life insurance) carried out in accordance with the legislation of a EU member state or a state party to EEAA by an institution that carries out the respective type of activity.

In practice, the introduction of these new definitions makes equal the tax treatment of the contributions/premiums as well as the income of this kind paid by Bulgarian companies and funds with the tax treatment of the income paid by such companies and funds that carry out business in another EU member state or a state party to EEAA. The equalization of the treatment concerns:

- the deduction of contributions/premiums made at the account of the person from the taxable income;
- the range of the exempt income as per art. 13, para 1, item 7 of IITA;
- the taxation with final tax under art. 38, para 8 of IITA of the amounts received back.

However, unlike the income of this kind from local source, the individual shall be the tax liable person for the final tax under art. 38, para 8 of IITA with respect to the income of this kind from source in EU/EEA. The paying company shall be liable to withhold and remit the final tax only if it is a Bulgarian resident.

#### 4. Tax relieves

The scope of the tax relieves has been broadened by adding new positions, as follows:

- **For donations:**

The donations to the **United Nations Children Fund (UNICEF)** have been included in the scope of relieves for donation for which a tax relief of 5% of the taxable income is allowed.

- **For young families (a new art. 22a has been created):**

The tax relief finds expression in reducing the total annual tax base with the interest payments made during the year on the first BGN 100,000 under a mortgage loan. The tax relief may be enjoyed by means of filing an annual tax return under certain conditions, which shall be evidenced with the respective documents.

#### 5. Income from business activity as sole-trader

By means of the new para 6 of art. 26 a limitation has been introduced in the per diems for a sole-trader that shall not be included in his taxable income - up to the double amount set in a normative act. The excess amount of the per diems over the double amount limit shall be included in the taxable annual income of the sole trader.

#### 6. Advance tax on income from economic activity and on income from rent or other compensated granting of use of rights and property of persons with reduced working capacity over 50%

The persons with reduced working capacity over 50% shall be obliged to make advance payments on income from economic activity and on income from rent or other compensated granting of use of rights and property after their taxable income from the beginning of the calendar year reduced with the withheld obligatory social-security contributions or those paid for the account of the person exceeds BGN 7, 920. So far, the advance tax of these persons for the income in subject was determined according to the general rules.

## **7. Obligations for providing of information by income payers**

The income from dividends and liquidation quota shall be pointed out in reference of the paid amounts to natural persons not in the year of payment of the income but in the year during which decision for dividends distribution is taken or the year of accrual of the liquidation quota.

The dividends and liquidation quota paid during 2008 shall be included in the reference of the paid amounts for 2008 if the income was accrued but was not included in a reference for a previous year.

The law enters into force as of 1 January 2009.

*The purpose of the information in this paper is only to point out certain issues, related to the application of the new amendments to IITA and it is not exhaustive. Should any questions about the application of the new provisions arise, please do not hesitate to contact us on telephone number: +3592 943 33 70, fax number: +3592943 37 07, e-mail: [office@afa.bg](mailto:office@afa.bg) or at the postal address: 1504 Sofia, 38, Oborishte Str.*