

## AMENDMENTS TO THE LOCAL TAXES AND CHARGES ACT

in force as of 1 January 2009

In the State Gazette issue 105 dated 9 December 2008 the Act on Amendment and Supplementation of the Local Taxes and Charges Act (AASLTCA) was promulgated. In this letter we will try to present the most important amendments of the law provisions without enumerating them exhaustively.

The new provisions enter into force as of 1 January 2009 and could be summarized in the following:

**1. The coefficients for location** under tables No 3 and No 4 of appendix No 2 to the law are increased with 50%, which will lead to increase of the tax valuations of the real estates with the same percentage.

**2.** With the amendment of art.10, para 4 of LTCA the non-taxable minimum for taxation with real estate tax is increased. If the tax valuation of the real estate is up to BGN 2,520 including (instead of up to BGN 1,680 as it was under the provisions effective till now), it will not be subject to tax.

**3.** The upper and down limit of the rates for taxation with some local taxes<sup>1</sup> established by law are reduced as follows:

**3.1.** for real estate tax – **from 0.5 to 2 pro mil** (compared to those in 2008 – 1.5 to 3 pro mil)

**3.2.** for inheritance tax:

- for brothers and sisters and their children – **from 0.4% to 0.8%** (compared to those in 2008 - 0.7% to 1.4%) for inheritance share over BGN 250,000;
- for all other persons - from **3.3% to 6.6%** (compared to those in 2008 - 5% to 10%) for inheritance share over BGN 250,000;

**3.3.** for tax on donation of property:

- on donations between brothers and sisters and their children - **from 0.4% to 0.8%** (compared to those in 2008 - 0.7% to 1.4%);
- on donations between persons, other than the above-mentioned - **from 3.3% to 6.6%** (compared to those in 2008 - 5% to 10%)

**3.4.** for tax on acquisition of property for consideration – **from 1.3% to 2.6%** (compared to those in 2008 - 2% to 4%).

<sup>1</sup> The concrete tax rates are defined annually with an ordinance issued by the municipal council within the limits established by law.

4. The deadline within which the municipal councils shall define the new rates of the local taxes is 31 January 2009.

If this date is not kept, the taxes in 2009 will be paid by **the lowest rates, stipulated in LTCA**. The garbage charge shall be defined by the municipal councils till 31 January 2009 as well, otherwise the charge shall be paid at the same absolute amount as in the previous year.

5. The term for payment of the first installment of the real estate tax for 2009 is prolonged - **from 1 March till 30 April 2009**, and those who pay the total annual tax amount within this term are allowed 5% discount.

## 6. Amendments regarding the exemption from local taxes

**6.1. The first group of amendments** derives from the membership of Bulgaria to the European Union (EU) and their aim is to remove the discriminatory tax treatment under LTCA of persons established in another member-state or in state-party to the European Economic Area Agreement (EEAA), compared to the Bulgarian persons.

- **Art. 38 under LTCA** is supplemented in a way to exempt from inheritance tax the properties bequeathed to lawfully registered religious institutions, community centers (*chitalishte*), the Red Cross organizations, non-commercial entities, except the non-profit organizations for performance of activities to private benefit, established in other member-states or in states-parties to EEAA.

In order to benefit from the tax exemption the persons shall present an official document, proving their statute or their qualification, issued or legalized by a competent authority of the respective state, as well as its legalized translation into Bulgarian.

- Supplementations are made to art.48 LTCA as well
  - Tax exempt are the acquired properties by educational, cultural or scientific organizations under state budgeting, specialized institutions for rendering of social services and institutions for medical and social care of children, national representative organizations of people with disabilities and for people with disabilities and medical treatment institutions, established in another member-state or in a state-party to EEAA, which are identical or similar to the exempt Bulgarian institutions and/or identical or similar to those under art. 5, para 1 of Medical Treatment Institutions Act, Red Cross organizations and community centers.
  - Tax exempt are donations to the benefit of non-profit entities, which receive subsidies from the central budget, identical or similar to such Bulgarian entities, which are established in another member-state or in a state-party to EEAA. The same treatment is provided for the received and given donations to the benefit of non-profit entities, which are identical, or similar to the non-profit entities registered in the Public Register of Non-profit Entities to the Public Benefit.
  - Tax exempt are donations for medical treatment of citizens of EU Member-States or of a state-party to EEAA.

- The values of the volume and power of the motor engine of cars owned by individuals with 50% to 100% disability (specified in art. 58, para 1, item 4 under LTCA) are increased. Tax exempt are cars with motor engine with volume up to 2,000 cubic centimeters and power of up to 117.64 kW (compared to those in 2008 with volume of the motor engine up to 1,800 cubic centimeters and power of up to 74 kW).

**6.2.** The second group of amendments has editorial character and their aim is to update and clarify the terms, used in the law

The term for „healthcare organizations under state budgeting“ is revoked and instead of it, the medical treatment institutions under art. 5 of the Medical Treatment Institutions Act (MTIA) are explicitly included in the scope of the tax exempt persons under art. 48 of LTCA.

Terms „social care centers“ and „Mother and Child Care Center“ are replaced respectively with „specialized institutions for rendering of social services“ in the meaning of the Social Assistance Act and „institutions for medical and social care of children“ in the meaning of the Medical Treatment Act. Those new terms are imposed in all respective places in the LTCA.

In art. 44, para 3 of LTCA, regulating one of the hypothesis of exemption from tax on acquisition of motor vehicles upon donation or for consideration, the term „imported in the country as new ones“ is replaced with motor vehicles, „which are not registered for traveling in the country“. Item 22 of para 1 of the Supplementary provisions of LTCA containing definition for „motor vehicles, imported as new ones“ is revoked.

**7. The local charges under art. 113, para 2 of LTCA are revoked** (for control on keeping the requirements for performance of trade with tobacco products and alcoholic beverages, wholesale trade and retail trade with products from grape, alcohol, destilats and alcoholic beverages, as well as for warehousing, keeping and camping of such products, for trade with alcoholic beverages in catering establishments and places for entertainment, for temporary stands for sale of products from grape, alcohol, destilates and beverages on fairs, advertising campains of companies and other similar activities).

Pursuant to the amended art. 113, para 1 of LTCA only the charge for issuing of permit for trade under art. 30, para 1 of the Tobacco and Tobacco Products Act, remains stipulated by the law. The charge is due at the time of request for issuing of permit by virtue of the new art.144 of LTCA.

The reasons for the revocation is that those charges are not in accordance with the law because the municipalities do not render the services for which the charges are collected.

*The information set out above has the purpose only to mark specific issues related to the application of the new taxation regime, introduced with AASLTCA and is not comprehensive. In case you have questions regarding the application of the new provisions, please do not hesitate to contact us on phone 02/943-37-00, e-mail [office@afa.bg](mailto:office@afa.bg) or at: 38 Oborishte Str., Sofia 1504.*