

# A **amendments in relation to the taxation of income of individuals, effective from 1 January 2003**

A Law on Amendment and Supplementation of the Individuals' Income Taxation Act (LASIITA) was promulgated in State Gazette, issue 118 dated 20 December 2002 of, which **comes into force as from 1 January 2003**. Hereby we would like to offer to your attention the most significant changes made in the Individuals' Income Taxation Act (IITA), as well as the changes in the Corporate Income Taxation Act (CITA) related to the taxation of the tax non-resident individuals' income. They could be summarized as follows:

- ❑ The scope of non-taxable income has been changed;
- ❑ The regime of taxation of individuals working under management contracts has been significantly changed, especially with respect to taxation of income received by tax non-residents;
- ❑ The possibility to enjoy a tax relief for paid contributions for voluntary pension, social and health security, as well as for contributions/premiums on Life insurance, has been significantly restricted;
- ❑ A possibility is created for using tax relief for donations made of income received under labour relationships;
- ❑ The regime of subsequent taxation of income from voluntary pension, social and health security, as well as from Life insurance, has been changed;
- ❑ Changes are made with respect to the scope of income subject to one-off tax and the regime of taxation of dividend income paid by legal non-residents, has been changed;
- ❑ The tax rates and the tax brackets under Art. 35 and 38 have been changed as every year;
- ❑ The advance tax rate has been changed.

## 1. Changes in the scope of non-taxable income

- Income from investment of assets of voluntary pension funds is explicitly defined as non-taxable.
- The scope of non-taxable income has been restricted through the amendment of Art. 12, para. 1, i. 4 of IITA. Insurance and security payments for incapacity to work have been excluded from it, as well as the amounts for medical expenses, reimbursed by insurer or social securer, except for the cases when **the incapacity to work is permanent**.
- As from 1 January 2003 the State and National prizes granted to artists are also considered non-taxable income.

## 2. Changes are made in the regime of formation of the tax base of employment income

The amendments to the regime of taxation of employment income are mainly related to the changes in the tax relieves, which individuals may use with respect to their income from such a source. An option is envisaged for the individuals to use **a tax relief for donation made from employment income** under the regime that applies to income from another sources, for which such a relief may be used (regulated by Art. 28 of IITA). The amount of the relief is restricted up to 10% from the annual taxable income less the statutory and voluntary social security contributions and premiums under Life insurance contracts. It may be used only annually.

The option for use of relieves for voluntary pension and health security contributions and contributions/premiums under Life insurances is limited (please refer to i. 5).

### **3. The changes in taxation of business income and income from other non-employment activities might be summarized as follows:**

#### **3.1. With the amendments of CITA, effective from 1 January 2003, changes are made in the regime of taxation of income of tax non-resident individuals received for carrying out management and control activities**

Remuneration received under management contracts and remuneration received by members of management and supervisory bodies of Bulgarian legal persons by tax non-resident individuals and paid by a tax resident or a permanent establishment shall be taxed with 15% withholding tax.

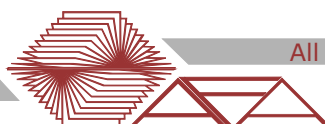
The tax resident persons payers of income under management contracts, respectively of remuneration to members of management and supervisory bodies will have to face the practical difficulty to perform reviews, respectively, gather evidence and establish the tax status of the respective individuals every time before paying any remuneration in order to determine the type of taxation.

**3.2.** The option that existed for notaries public and persons carrying out medical activities under the Law on Medical Establishments to choose whether the taxation of their income be performed under IITA or CITA has been revoked. As from 1 January 2003 they should be taxed under the regime provided for in IITA.

**3.3.** The option for use of relieves for paid voluntary pension and health security contributions and for contributions/premiums under Life insurances has been limited (please refer to i. 5).

**3.4.** The advance tax rate has been changed. As from 1 January 2003 the advance tax rate under Art. 36 of IITA has been reduced from 20% to **15%**.

**4. Dividend income** paid by tax non-residents that are not tax liable under CITA, to tax resident individuals is subject to 15% tax. The tax shall be computed on the gross amount of income received for each quarter and shall be paid by the 15<sup>th</sup> day of the month following the quarter, into the bank account of the tax office, on which territory the permanent address of the individual is.



## 5. Changes with respect to:

- **The possibility for use of tax relief for paid voluntary pension and health security contributions and for contributions/premiums on Life insurances.** These changes relate to all types of income for which such tax relief is provided (i.e. income from work) and consist of **introduction of an upper limit (10%** of the taxable income, respectively, of the taxable income less the allowed expenses) and of explicit texts that **the relief may be used for the period** (month, respectively, year), **during which the respective contributions have been actually made** (and not to which they relate).
- **The regime for subsequent taxation of income from voluntary pension, social and health security contributions, as well as from Life insurances.**
  - 20% one-off tax is due upon transfer of contributions, for which tax relief has been used, from the individual account to the account of a third party, as well as upon **a transformation of an insurance contract**, for which a tax relief has been used, **into a contract for which the law does not provide for use of the relief.**
  - Income corresponding to the part of contributions/premiums for which no relief has been used, are excluded from taxation.

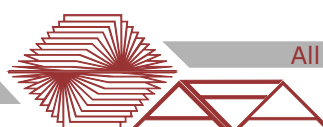
The issues on the practical implementation of these provisions, however, remain opened, insofar there is no regime for determination of that part of income, which shall be excluded from taxation.

## 6. Changes in the tax rates and amounts

As we have already mentioned, the advance tax rate due for non-employment income (with the exception of that taxable with final patent tax), received after 1 January 2003 **has been changed from 20% to 15%.**

As every year, the tax rates and the tax brackets have been changed under Art. 35 and Art. 38 of IITA:

The annual tax table (Art. 35 of IITA) has been changed as follows:



| 2002 г.              |   | 2003 г.                    |   |
|----------------------|---|----------------------------|---|
| Annual tax base      | Tax   | Annual tax base            | Tax   |
| Up to 1,320          | Non-taxable                                     | Up to 1,320                | Non-taxable   |
| From 1,320 to 1,680  | 18% for the excess of BGN 1,320                 | From 1,320 to <b>1,800</b> | <b>15%</b> for the excess of BGN 1,320                    |
| From 1,680 to 4,800  | BGN 64.80 + 24 for the excess of BGN 1,680      | From 1,800 to <b>3,000</b> | <b>BGN 72 + 22%</b> for the excess of BGN <b>1,800</b>    |
| From 4,800 to 12,000 | BGN 813.60 + 28% for the excess of BGN 4,800    | From 3,000 to <b>7,200</b> | <b>BGN 336 + 26%</b> for the excess of BGN <b>3,000</b>   |
| Over 12,000          | BGN 2,829.60 + 29% for the excess of BGN 12,000 | Over <b>7,200</b>          | <b>BGN 1,428 + 29%</b> for the excess of BGN <b>7,200</b> |

The monthly tax table (Art. 38 of IITA) has been changed as follows:

| 2002 г.                |  | 2003 г.                |   |
|------------------------|--|------------------------|---|
| Monthly tax base (BGN) | Tax  | Monthly tax base (BGN) | Tax   |
| Up to 110              | Non-taxable                                  | Up to 110              | Non-taxable   |
| From 110 to 140        | 18% for the excess of BGN 100                | From 110 to <b>150</b> | <b>15%</b> for the excess of BGN 110                  |
| From 140 to 400        | BGN 5.40 + 24% for the excess of BGN 140     | From 150 to <b>250</b> | <b>BGN 6 + 22%</b> for the excess of BGN <b>150</b>   |
| From 400 to 1,000      | BGN 67.80 + 28% for the excess of BGN 400    | From 250 to <b>600</b> | <b>BGN 28 + 26%</b> for the excess of BGN <b>250</b>  |
| Over 1,000             | BGN 235.80 + 29% for the excess of BGN 1,000 | Over <b>600</b>        | <b>BGN 119 + 29%</b> for the excess of BGN <b>600</b> |

## 7. Other amendments

- An obligation has been introduced for the individuals forming a taxable

income under CITA, i.e. the sole traders shall submit also a complete set of financial statements (including the notes thereto) along with their annual tax return, as well as a copy of the auditor's report, if the financial statements have been audited, within a month following the date of issuance of the report.

- Everywhere in the IITA provisions the term "place of residence" has been replaced with the term "permanent address". So, it is undisputable now that the individuals, when they have such obligations, shall submit tax returns and pay taxes in the respective tax office at their permanent address (respectively, registered address of stay in Bulgaria for tax non-residents).

The present material aims at informing you about the more significant amendments made in the Individuals' Income Taxation Act, effective from 1 January 2003. Should you have any questions on the practical implementation of certain provisions, please do not hesitate to contact us at tel. 943 37 00, fax 943 37 07, or at 38, Oborishte Str., Sofia 1504.