

In State Gazette, issue 112 of 23 December 2003, there has been published a Law on Amendment and Supplementation of the Individuals' Income Taxation Act (LASIITA), which **comes into force on 1 January 2004**, except for § 12 LASIITA introducing a new kind of relief under the patent tax regime that will be applicable as from 1 January 2005. The changes to be kept in mind concern:

Tax exempt income received under employment relations (governed by the Labour Code). Most of the amendments to Art. 19, para 2 of the Individuals' Income Taxation Act (IITA) are rather of clarifying nature and aimed at more precise wording of the provision of the law. The amendment in substance represents a change in the scope of compensations (indemnities) under the Labour Code and under special laws, being defined in IITA as tax exempt ones.

Tax relief for personal contributions for supplementary voluntary security paid during the year and for personal contributions (premiums) paid under life insurance agreements. Following the amendments of Art. 20, para 2, Art. 21, para 1, i. 2 and Art. 22, para 1, i. 3 IITA, there has been changed the basis whereto it shall be applied the 10% limit for recognition of a relief for voluntary security contributions and/or life insurance premiums. As from 1 January 2004 a relief could be used: (a) for personal contributions for voluntary pension security and voluntary security against unemployment, at a total amount of up to 10% of the taxable income, respectively the taxable income after deducting the allowance for the performed activity, under Art. 22, para 1, i. 1 IITA; and (b) for personal contributions for voluntary health security and personal contributions/premiums under life insurance agreements, at a total amount of up to 10% of the taxable income, respectively the taxable income after deducting the allowance for the performed activity, as provided by IITA.

Scope of income subject to one-off tax. Art. 26 IITA has been supplemented with new i. 10, whereby the scope of income subject to one-off tax under Art. 40 IITA has been broadened. The change concerns remuneration of tax non-residents, who are sportsmen, scientists, artists, cultural figures, received for activities personally performed on the territory of Bulgaria.

The patent tax regime: (a) The threshold of turnover for the previous year, being a condition for taxation with patent tax, has been decreased from BGN 75 thousand to BGN 50 thousand; (b) The production activities have been excluded from the scope of the so-called 'patent' activities (i. 6 of Art. 31, para 1 IITA was cancelled); (c) The number of seats for consumption in restaurants, cafeterias and other places for meal serving and/or amusement is no longer a condition for taxation with patent tax (i. 2 of Art. 31, para 1 IITA was amended); (d) The deadline for submission of tax returns for taxation with patent tax, under Art. 44 IITA, has been changed, except in the case of commencement of activities. As from the beginning of 2004 the changed deadline is 31 January of the current year.

The tax brackets under Art. 35 and Art. 38 IITA: like each year, they have been altered. In fact, the changes in the tax burden for each one of the brackets is immaterial: the maximum decrease of the tax burden is around 1.60% for annual



income tax base around BGN 1,800. This decrease is below 1% for annual income tax base around and over BGN 3,000, and continues falling below 0.5% for annual income tax base over BGN 6,000.

The purpose of this paper is to highlight the more important amendments and supplementations of IITA, effective as from 1 January 2004. Should issues arise regarding the application of the new provisions of the law, please do not hesitate to contact us at tel.: 943 37 00, fax 943 37 07, e-mail: office@afa.bg, or postal address at 38, Oborishte Street, Sofia 1504.

