REPUBLIC OF BULGARIA
MINISTRY OF FINANCE

# Tax Incentives and Preferential Tax Regimes in Bulgaria

Overview 2017

Tax Policy Directorate

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**INTRODUCTION**

The Bulgarian tax system, like a considerable percentage of the tax systems around the world, envisages a number of tax incentives. Their objective is to provide incentives for the behaviour of taxpayers in support of the development of certain regions, selected economic branches and specific types of activities, or to change the progressive features of the tax system.

From a legal point of view, tax incentives can take various forms – low tax rates for profit tax and tax on dividends, reduced tax rates, tax holidays, investment tax credits, accelerated tax depreciation, tax loss carry forward, etc.

Taking also into account the leading role of the tax incentives for the economic development of the country and the employment, as well as in pursuance of the measures identified for realising the government priorities in the field of tax policy, this overview of the extant system of tax incentives and preferential tax regimes in Bulgaria was developed.

The overview of the system of tax incentives and preferential tax regimes in Bulgaria discusses in detail each tax incentive, tax relief and preferential tax regime, and covers:

- the legal regulation of the incentive/ relief / preferential regime;
- the substance of the incentive / relief / preferential regime;
- the objective of the incentive / relief / preferential regime;
- the conditions for using the incentive / relief / preferential regime;
- the beneficiaries of the incentive / relief / preferential regime.

This overview does not include an assessment of the effectiveness of the system of tax incentives and preferential regimes in Bulgaria, neither an assessment of the degree of complexity of the provisions regulating the tax incentives and reliefs and their practical implementation by taxpayers.

The assessment of the effectiveness of the system of national tax incentives, as well as the assessment of the statutory provisions, regulating these incentives, will be the subject of future analyses.

**This overview includes all existing tax incentives and preferential tax regimes**.

## I. ESSENCE OF TAX INCENTIVES AND RELIEFS

In their essence, tax incentives and reliefs are fiscal measures and instruments used to attract foreign direct investment, provide incentives for the development of certain regions and strategic economic branches, promote innovation and the use of high technologies in economy, provide incentives for education and qualification of population, as well as increase employment.

## II. TYPES OF TAX INCENTIVES AND RELIEFS

Tax incentives can be conditionally divided into two main groups:

- general tax incentives and reliefs and
- special-purpose tax incentives and reliefs.

| General tax incentives and reliefs | |
|---|---|
| **Low tax rates of the profit tax and the tax on dividends** | The low tax rates of the profit tax and the tax on dividends are a type of tax incentive used to encourage foreign direct investment. This tax incentive is applied equally for all taxpayers, regardless of the region or the economic branch in which they operate. |
| **Reduced tax rates** | Reduced tax rates, lower than the standard ones, are used to attract foreign direct investment in specific economic branches or regions. These rates may apply to income from certain sources or to companies, which meet predetermined criteria. |
| **Tax holidays** | Tax holidays are a type of tax incentive with a limited period of validity, used to attract foreign direct investment. The incentive may be in the form of exemption from taxation or assigning of tax. This type of incentive is targeted mainly at newly-established companies, which are exempt from profit tax for a certain period of time (usually 5 years). In some cases this period can be extended by a subsequent period during which a reduced tax rate is applied. |

| | |
|---|---|
| **Investment tax credits and aid** | Investment tax credits and aid are types of tax incentives for attracting foreign direct investment based on a percentage of the value or the whole value of the investments made. These are incentives over and above the tax depreciation of long-term assets.<br>Investment tax credit reduces directly the amount of the profit tax owed.<br>Investment aid reduces the tax base for determining the profit tax. |
| **Accelerated tax depreciation** | Accelerated tax depreciation is a type of tax incentive for attracting foreign direct investment and in its substance is a deferral of the payment of profit tax by recognising a higher amount of depreciation costs, recognised for tax purposes, for the corresponding years while complying with certain conditions regarding assets. |
| **Tax loss carry forward** | The tax loss carry forward is a type of tax incentive for attracting high-risk investments, related to uncertain returns and generating considerable loss during the first years of the investment. The tax treatment of the loss can be in different forms: carrying of the loss forward to future tax periods or back to prior tax periods; the carrying of losses forward or back can be limited or unlimited in time, as well as in different percentages. |

| Special-purpose tax incentives and reliefs | |
|---|---|
| **Tax incentives for regional development** | Tax measures which, in the form of tax holidays, investment tax credits or accelerated tax depreciation, are provided for operations conducted in remote regions, economically disadvantaged regions or regions with high unemployment rates. The main effect of this type of incentive is the redirecting of investments from attractive to less attractive regions of the country. |
| **Tax incentives for creating jobs** | Tax measures mainly orientated to the development of labour-intensive industries or the creation of jobs for certain categories of people – young people, people with disabilities, long-term unemployed. |
| **Tax incentives for transfer of technologies** | Tax measures which, in the form of accelerated tax depreciation or investment tax credit, aim at attracting investments for the development of high technologies or research and development activities. |
| **Tax incentives for promoting exports** | Tax measures targeted at attracting investments in export-orientated industries, most frequently in the form of tax holidays or special aid in the case of investments in export-orientated industries, such as exemption from taxation of revenues, corresponding to the share of exports in the total volume of sales, or expanding the scope of expenditure recognised for tax purposes, related to exports. |
| **Free trade zones or export processing zones** | Export processing zones are closely related to the promotion of exports. They provide a favourable environment, in which foreign and local persons and entities can import machines, materials and raw materials exempt from duties and tax, for the purpose of assembly, processing or manufacturing and export of a finished product. The main benefits of the introduction of free trade zones are the profits from exports, but it is also possible to aim at the creation of jobs, attracting high technologies or the development of certain regions of the country. |

## III. ADVANTAGES AND DISADVANTAGES OF THE APPLYING OF TAX INCENTIVES AND RELIEFS

The use of tax incentives and reliefs for providing incentives for economic development and employment has both considerable advantages and a number of disadvantages.

### 1. Advantages of the Applying of Tax Incentives and Reliefs

| Advantages | |
|---|---|
| **Positive external factors** | The benefits of tax incentives and reliefs include new capital investments, investments in research and development, as well as training of staff in connection with the investments made. |
| **Practicality** | Regardless of the fact that the main purpose of taxation is to increase the revenues to the budget, the tax system in its essence also has an impact in economic incentives. For this reason, tax incentives and reliefs are a flexible tool for making impact on the incentives in a direction, contributing to the achievement of other political objectives, such as investment promotion, creation of jobs, development of certain regions, etc. |
| **Creating a favourable investment climate** | In combination with other measures, the introduction of tax incentives and reliefs is a signal of the commitment of the State to facilitate entrepreneurs, foreign and local investors. |
| **Capital mobility** | In the conditions of a global economy with high capital mobility, the effective taxation must be low in order to attract external flows of foreign investments and, at the same time, ensure investments for production, financed with domestic capital. |
| **Tax competition** | In the conditions of competition among countries for the same investments, the introducing of special tax incentives for encouraging economic growth and investments influences the investment decisions of entrepreneurs – both local and foreign. |

| | |
|---|---|
| **Compensates for deficiencies in the investment climate** | The system of tax incentives can compensate for other deficiencies in the investment climate in the country, such as unreliable infrastructure, macroeconomic instability, problems in the judicial system, etc. |
| **Tax revenues** | The indirect impact on revenues can be favourable, since the new investments, materialised through tax incentives, create new jobs and are related to effects generating tax revenues. |
| **Political importance** | The price of tax incentives is less visible compared to the investment policies, which are related to direct expenditure for the budget. This makes the incentives attractive and preferred. |
| **Effective incentive for foreign direct investment** | Practice shows that tax incentives and reliefs are an effective incentive for promoting foreign direct investment. |

**2. Disadvantages of the Applying of Tax Incentives and Reliefs**

| **Disadvantages** | |
|---|---|
| **Loss of revenues to the budget** | These are the revenues to the budget, which would have been collected if the corresponding tax incentive or relief did not exist. |
| **Loss of revenues to the budget as a result of tax fraud** | Abuse and improper use of tax incentives and reliefs or minimising the payment of taxes by using different schemes for tax planning. |
| **Costs for allocation of resources** | Tax incentives lead to distortion of investment choices between different economic branches and activities, instead of correcting market failures. |
| **Impact on administration** | Tax incentives and reliefs lead to complicating the tax system, as a result of which the costs of the tax administration increase. |
| **Economic costs** | The loss of revenues to the budget in connection with the application of tax incentives for providing incentives to a certain class of investors or activities are borne by the remaining taxpayers. |

## IV. MAIN FEATURES OF THE SYSTEM OF TAX INCENTIVES AND RELIEFS IN BULGARIA

The system of tax incentives, reliefs and preferential tax regimes in Bulgaria is orientated at promoting foreign direct investment and innovation, increasing employment, development of certain regions and strategic industries in the country, as well as the achieving of certain social objectives.

The system includes different tax incentives and reliefs – exemption from taxation, reduced tax rates, assigning of corporation tax and tax on incomes, accelerated tax depreciation, tax loss carry forward and other.

## V. NATIONAL TAX INCENTIVES AND RELIEFS

This overview of the system of national tax incentives and reliefs discusses the main types of tax incentives for business and citizens regulated by the Value Added Tax Act, the Excise Duties and Tax Warehouses Act, the Corporate Income Tax Act and the Personal Income Tax Act.

The overview of the system of tax incentives and preferential tax regimes in Bulgaria discusses in detail each tax incentive, tax relief and preferential tax regime, and covers:

- the legal regulation of the incentive / relief / preferential regime;
- the substance of the incentive / relief / preferential regime;
- the objective of the incentive / relief / preferential regime;
- the conditions for using the incentive / relief / preferential regime;
- the beneficiaries of the incentive / relief / preferential regime.

### 5.1. TAX INCENTIVES AND RELIEFS UNDER THE VALUE ADDED TAX ACT

The following tax incentives are regulated in the Value Added Tax Act:

Tax incentive

Special arrangements for charging value added tax upon importation and reduced 30-day period for refund of the value added tax in the implementation of an investment project.

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 57, Article 164 – Article 167 of the Value Added Tax Act (VAT Act). The tax incentive is a de minimis aid scheme in the meaning of Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid. A deviation from the scheme is admissible in the case of compliance with the State Aid Act and its Implementing Regulation through a notification procedure and receiving a positive decision of the European Commission.

**Substance of the Tax Incentive**

The tax incentive consists in the right of the person taxable under the Value Added Tax Act to charge independently the tax upon importation of goods instead of the customs authorities for the tax period, in which the tax event has occurred, if it is granted an authorisation issued by the Minister of Finance. In such cases the customs authorities shall allow the goods to be taken without the tax having been effectively paid in or secured. For the same tax period the importer shall have the right to tax credit for the tax charged, in accordance with the general provisions of the VAT Act.

The incentive is applied only in the cases where the registered person has received authorisation issued in accordance with the procedure of Article 166 of the Act, and imports goods (other than excise goods) in accordance with a list approved by the Minister of Finance.

**Objective of the Tax Incentive**

The objective of the tax incentive aims to promote initial investments (of over BGN 5 million) and the creation of new jobs (over 20) in connection with the investment. This measure encourages enterprises which invest in the country, by allowing these companies to effectively not pay VAT upon importation. This allows the enterprises to free liquid funds at the beginning of their investment projects (during the first two years). In order to avoid discrimination in the consumption of goods upon importation and supplies in the territory of Bulgaria, an accelerated refund of the paid VAT, paid by the same companies for supplies in the territory of Bulgaria, is introduced. The deadline for the refund is **30 days.**

**Conditions for Using the Tax Incentive**

To use the tax incentive, the following conditions shall be simultaneously satisfied:

**1. Implementation of an investment project –** the taxable person shall be implementing an investment project approved by the Minister of Finance. The investment project shall be approved where the following circumstances simultaneously exist:

**-** the time limit for implementation of the project does not exceed two years;

- the amount of investment exceeds BGN 5 million for a period not longer than two years;

- more than 20 new jobs are created;

- the person is capable of financing the project, as well as of constructing and maintaining facilities ensuring the implementation of the said project.

The Act details the procedure for issuing an authorisation of applying the tax incentives for a period of up to 2 years on the basis of a request by the person, accompanied by the documents required by law and proving the nature of the project, its economic feasibility and profitability, the financial position of the taxable person, its ability to finance and implement the project, confirmed by a registered auditor.

**2. Registration under the Act** – applicants for applying the special arrangements for charging value added tax upon importation and reduced 30-day period for refund of the value added tax **shall be registered persons in the meaning of the VAT Act.**

**3. Absence of chargeable and unpaid tax liabilities and liabilities for social insurance contributions** – taxable persons wishing to use the incentive shall have no unpaid and chargeable tax liabilities and liabilities for social insurance contributions. The absence of liabilities shall be proved by certificates issued by the National Revenue Agency (NRA).

**4. Satisfying the criteria for receiving de minimis aid**

1. The incentive cannot be used by taxable persons, which:

- are active in the fishery and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000;
- are active in the primary production of agricultural products;
- are active in the processing and marketing of agricultural products in the following cases;

  - where the amount of the aid is fixed on the basis of the price or quantity of such products purchased from primary producers or put on the market by the undertakings concerned;

  - where the aid is conditional on being partly or entirely passed on to primary producers;

- Aid contingent upon the use of domestic over imported good.

2. Ineligible to use the incentive shall be taxable entities that due to accumulation of the de minimis aid under the scheme with another ***de minimis*** aid granted earlier under

Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid, and/or ***de minimis*** aid granted under Commission Regulation (EU) No 360/2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid granted to undertakings providing services of general economic interest exceed the threshold of the BGN equivalence of EUR 200 000. As regards undertakings performing carriage of goods by road for hire or reward the exceeded threshold is the BGN equivalence of EUR 100 000, as the aid does not include costs for acquisition of road freight transport vehicles; these thresholds apply whether the aid is financed entirely or partly by resources of the European Union.

2.1. The taxable entity shall file a declaration about the amount of the de minimis aids received by it, regardless of their form and source, for the last three years, including the current year.

For the purposes of article 2 of Regulation 1407/2013, a taxable entity fulfils the conditions for a “single undertaking” when at least one of the following relationships is present:

a) one enterprise has a majority of the shareholders’ or members’ voting rights in another enterprise;

b) one enterprise has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another enterprise;

c) one enterprise has the right to exercise a dominant influence over another enterprise pursuant to a contract entered into with that enterprise or to a provision in its memorandum or articles of association;

d) one enterprise, which is a shareholder in or member of another enterprise, controls alone, pursuant to an agreement with other shareholders in or members of that enterprise, a majority of shareholders’ or members’ voting rights in that enterprise;

Enterprises having any of the relationships referred to in points (a) to (d) through one or more other enterprises shall also be considered to be a “single undertaking”.

When there is a “single undertaking” within the meaning of the quoted provision, in addition to the above declaration, a declaration shall also be filed for each single entity about the amount of the de minimis aids received by this entity, regardless of their form and source, for the last three tax years, including the current one.

The de minimis aid includes all previous aids of transforming undertakings, in cases of transformation or assignment of undertakings.

Entities that have obtained an authorization from the Ministry of Finance to apply the special procedure under the VAT Act before 1 January 2015 should submit to the Ministry information about the implementation of the investment project for the year of the issue of the authorization and for the next calendar year – by the 20th day of January of the year coming after the year that the information refers to. For the rest of the period of implementation of the investment project – by the 20th day of the month following the month of expiration of the term of validity of the authorization.

**Beneficiaries of the Incentive**

Persons registered under the Value Added Tax Act and established in the territory of Bulgaria.

Tax incentive

Reduced tax rate in the amount of 9 per cent for accommodation provided at hotels and similar establishments

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 66(2) of the Value Added Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists of applying a reduced tax rate for accommodation provided at hotels and similar establishments, including the provision of vacation accommodation and letting out of places for camping sites or caravan sites.

**Objective of the Tax Incentive**

The objective of the tax incentive is to provide incentives for the development of tourism in Bulgaria as a strategic sector.

**Conditions for Using the Tax Incentive**

The subject of taxation at a tax rate of 9 per cent shall be the supply of a service, with regard to which the following conditions are met:

- the subject of the supply of the service shall be “accommodation”;
- accommodation is provided in hotels and similar establishments, including the provision of holiday accommodation and the letting of places on camping or caravan sites.

The reduced tax rate is applicable to all recipients of the "accommodation" service – tour operators, tourist agents and other legal entities, as well as individuals.

**Beneficiaries of the Incentive**

The reduced tax rate is applicable to the supply of the "accommodation" service with regard to which the above conditions are met, regardless of the status of the recipients of the supply, i.e. taxable natural or legal persons and non-taxable natural persons, respectively.

The supplier of the "accommodation" service shall apply the reduced tax rate regardless of whether he owns the establishment where the "accommodation" service is delivered or runs it at his own risk and expense.

The subject of the supply rather than the quality of the supplier is relevant for the application of a reduced rate.

When the supplier delivers an "accommodation" service purchased by another taxable person, the special arrangements for taxation of the profit/price margin shall apply to the supply by applying a standard VAT rate instead of a reduced tax rate of 9 per cent.

## 5.2. TAX INCENTIVES AND RELIEFS UNDER THE EXCISE DUTIES AND TAX WAREHOUSES ACT

Under the Excise Duties and Tax Warehouses Act tax incentives and reliefs are introduced in the form of exemption from excise duties and reduced excise duties. It should be noted that only exemptions from excise duties and reduced rates which are optional under the European excise law and a matter of national discretion are considered as tax incentives. The mandatory exemptions under the European excise Directives are not national tax incentives.

The following tax incentives and reliefs are regulated in the Act:

### Tax incentive

Refund of the excise duty paid on alcohol and alcoholic beverages where they are used for medical treatment purposes

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 22(4) of the Excise Duties and Tax Warehouses Act and Article 9 of the Implementing Regulation of the Excise Duties and Tax Warehouses Act.

Option pursuant to Article 27(2) of Council Directive 92/83/EEC of 19 October 1992 on

the harmonisation of the structures of excise duties on alcohol and alcoholic beverages.

**Substance of the Tax Incentive**

The tax incentive consists in the refund of the excise duty paid on alcohol and alcoholic beverages where they are used for medical treatment purposes in medical establishments and pharmacies; as samples for analysis, for necessary production tests, or for scientific purposes; for scientific research; in a manufacturing process provided that the finished product does not contain alcohol.

**Objective of the Tax Incentive**

The tax incentive aims at supporting the healthcare in Bulgaria – medical establishments and pharmacies.

**Conditions for Using the Tax Incentive**

The excise duty paid is refunded after the alcohol and alcohol beverages are used, based on a request in writing in a standard form, approved in the Implementing Regulations of the Act.

The request for refund shall contain the following information:

1. the type, quantity, unit price including the excise duty, and the alcohol content of the alcohol and alcoholic beverages used;

2. the amount of the excise duty subject to refund – total and by types of alcohol and alcoholic beverages used;

The following documents shall be enclosed with the request for refund:

1. copies of the invoices related to the purchased alcohol and alcoholic beverages including the excise duty, or a customs declaration relating to the imported alcohol and alcohol beverages;

2. standard rate of use of the alcohol and alcoholic beverages used for each individual activity according to technological instructions, recipe books or industry norms;

3. the document certifying the right to perform the corresponding activity;

4. the documents certifying that the corresponding activities have been completed and the used alcohol and alcoholic beverages by types and quantities.

**Beneficiaries of the Incentive**

Medical establishments in the meaning of the Medical Institutions Act, pharmacies in the meaning of the Medicines and Pharmacies for Human Medicine Act, research institutes, laboratories using alcohol and alcoholic beverages with paid excise duty. The refund is

also applicable to manufacturers, which use alcohol and alcoholic beverages with paid excise duty in the manufacturing process provided that the finished product does not contain alcohol.

## Tax incentive

### Zero excise duty on electricity for household purposes

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 34a(2) of the Excise Duties and Tax Warehouses Act.

Option under Article 15(1)(h) of Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity, which allows Member States to apply exemptions to electricity used by households.

**Substance of the Tax Incentive**

The excise rate for electricity falling within CN code 2716 for consumers of electricity for household purposes within the meaning of the Energy Act shall be BGN 0 per megawatt hour.

**Objective of the Tax Incentive**

The tax incentive has a social objective.

**Conditions for Using the Tax Incentive**

Persons selling electricity to consumers of electricity for household or industrial purposes in the meaning of the Energy Act shall be subject to mandatory registration in accordance with Article 57a(1), item 2 of the Excise Duties and Tax Warehouses Act.

To obtain the registration, the persons shall file an application to the head of the customs authority by registered address or registered office. The following documents shall be enclosed with the request:

1. a certificate of current standing – the original or a notary certified copy in the events where the person is not re-registered in accordance with the procedure of the Commercial Register Act, if the person is subject to such registration;

2. a copy of a document certified by the person, certifying its/his uniform identification code;

3. a license, permit or registration, where this is required by law;

4. type of excisable goods falling within CN code.

On the grounds of the application and the documents enclosed thereto, the head of the customs authority shall issue a certificate of registration or shall refuse to issue it by a motivated decision.

**Beneficiaries of the Incentive**

Persons, which have obtained a licence under the Energy Act and sell electricity to consumers of electricity for household or industrial purposes.

Tax incentive

Zero excise duty rate on coal and coke when sold to individuals

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 20(2), item 15 of the Excise Duties and Tax Warehouses Act.

Option under Article 15(1)(h) of Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity, which allows Member States to apply exemptions to coal and coke used by households.

**Substance of the Tax Incentive**

The excise rate for coal and coke upon sale to individuals other than sole proprietors shall be BGN 0 for Gigajoule.

**Objective of the Tax Incentive**

The tax incentive has a social objective.

**Conditions for Using the Tax Incentive**

No conditions are set.

**Beneficiaries of the Incentive**

Individuals other than sole proprietors.

Tax incentive

Reduced excise duty for natural gas used as motor fuel

**Legal Framework of the Tax Incentive**

The tax incentive is regulated in Article 32(1), item 6a of the Excise Duties and Tax

Warehouses Act.

Option under Article 15(1)(i) of Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, which allows Member States to apply reduced rates for natural gas used as motor fuel.

**Essence of the Tax Incentive**

The excise duty rate for natural gas used as motor fuel falling within CN codes 2711 11 00 and 2711 21 00 is BGN 0.85 per 1 gigajoule.

**Objective of the Tax Incentive**

The tax incentive has an environmental objective.

**Conditions for Using the Tax Incentive**

No conditions are set.

The Republic of Bulgaria has sent to the European Commission a notification of applying a reduced excise duty rate for natural gas used as motor fuel of BGN 0.85 per 1 gigajoule for a period of 6 years as from 1 January 2014.

In accordance with Article 32(12) of the Excise Duties and Tax Warehouses Act, the excise duty rate as per paragraph 1, item 6a for natural gas falling within CN codes 2711 11 00 and 2711 21 00 shall be increased to BGN 5.10 per 1 gigajoule, in case the European Commission would issue an act establishing non-compatibility of the state aid rules in the form of reduced excise rate for natural gas used as motor fuel from the date of issuance of such an act.

**Beneficiaries of the Incentive**

The persons using natural gas as motor fuel.

## Tax incentive

### Reduced excise rate for ethyl alcohol (rakiya), produced in a specialised small distillery, of BGN 550 per 1 hectolitre of pure alcohol

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 31(1), item (6) of the Excise Duties and Tax Warehouses Act.

The tax incentive is in line with the derogation agreed in the process of negotiations for accession of the Republic of Bulgaria to the EU for applying a reduced excise rate to the

production of up to 30 litres of ethyl alcohol (rakiya) per annum per family for personal consumption.

**Substance of the Tax Incentive**

The tax incentive consists in the applying of a reduced excise rate of BGN 550 per 1 hectolitre of pure alcohol, produced in a specialised small distillery (still).

In the meaning of Article 4, item 8 of the Excise Duties and Tax Warehouses Act, "Specialised small distillery" shall be a distillation unit which meets the following conditions simultaneously:

a) it shall be legally and economically independent from any other distillery and does not operate under license;

b) it shall be a distillation unit with a total volume of vessels of up to and including 1,000 litres, where ethyl alcohol (rakiya) is produced from grapes and fruits – own production of natural persons, for their personal and family consumption up to 30 litres of ethyl alcohol (rakiya) per annum per family.

The term "Legally and economically independent specialized small distillery" is given in Article 4, item 38a and this is a person under Article 57(1) that is not a related party to a person who is a producer of ethyl alcohol (rakiya).

**Objective of the Tax Incentive**

The tax incentive has a social objective.

**Conditions for Using the Tax Incentive**

The reduced excise rate is applied only by individuals satisfying the definition of a "specialised small distillery", set out in Article 4, item 8 of the Act, which are subject to mandatory registration in accordance with the procedure of the Excise Duties and Tax Warehouses Act. Pursuant to Article 57 of the Act, the owners or tenants of such units may be only persons registered under the Commerce Act, the Co-operative Societies Act or under the laws of a European Union Member State or of another state which is a signatory to the European Economic Area Agreement, as well as legal entities established by virtue of a normative act. The Customs Agency issues certificates of registration to such persons on the grounds of an application filed by them to the head of the customs authority by location of the unit before commencing activity.

To obtain a certificate of registration, the persons shall file a request to the head of the customs authority by location of the unit before commencing activity.

The person shall enclose the following documents with the request:

1. technical information on the opened and closed production units or warehouses, specifying the area and their location, full description of the technological equipment, including containers and their volume;

2. the original or a notary certified copy of a document certifying the unit's commissioning, issued in accordance with the Spatial Development Act;

3. a license, permit or registration, where this is required by law;

4. a declaration that the unit meets the requirements for a specialised small distillery;

5. a list of the full names and personal identification numbers of the persons that manage the production process (in charge of the units) and meet the requirements of the Wine and Spirit Drinks Act and the by-laws for its implementation.

**Beneficiaries of the Incentive**

The persons satisfying the definition of a specialised small distillery, set out in Article 4, item 8 of the Excise Duties and Tax Warehouses Act.

## Tax incentive

### Reduced excise rate for beer produced by independent small breweries

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 31(1), item 7 of the Excise Duties and Tax Warehouses Act.

Option under Article 4(1) of Council Directive 92/83/EEC of 19 October 1992 on the harmonisation of the structures of excise duties on alcohol and alcoholic beverages, which allows Member States to apply lower tax rates to beer produced in independent small breweries.

**Substance of the Tax Incentive**

The tax incentive consists in the applying of a reduced excise rate of BGN 0.75 per 1 hectolitre per degree for beer produced by independent small breweries.

In the meaning of Article 4, item38 of the Excise Duties and Tax Warehouses Act, an "Independent small brewery" is a tax warehouse, which is legally and economically independent of any other brewery, does not use in any form premises or production capacity of another brewery, does not conduct its operations under a licensing agreement for production of

beer or other malt-based products, and has an annual production not exceeding 200,000 hectolitres of beer. Legally and economically independent brewery shall be a company:

a) in the capital of which no other company, engaged in production or marketing of beer, participates, and which does not participate in the capital of any other company, engaged in production or marketing of beer, or

b) in the management or supervisory bodies of which no persons participate, involved in management or supervisory bodies of another company engaged in production or marketing of beer, or

c) in the management or supervisory bodies of which no persons participate, involved in management or supervisory bodies of another company engaged in production or marketing of ail or a third company, related to such other company for production or marketing of beer, or their relatives.

Where two or more small breweries are engaged in joint operations and their aggregate annual production does not exceed 200,000 hectolitres, they are considered as one independent small brewery.

Producers of beer which have been established to have declared false information under the procedure of the Excise Duties and Tax Warehouses Act during the current or the previous year shall not be considered independent small breweries.

**Objective of the Tax Incentive**

The objective of the tax incentive is to support the development of small and medium-sized enterprises in Bulgaria.

**Conditions for Using the Tax Incentive**

The reduced excise rate shall be applied only by persons satisfying the definition of independent small brewery set out in Article 4, item38 of the Act, which have a licence for managing a small warehouse and an issued certificate of registration of an independent small brewery. For obtaining a certificate of registration of an independent small brewery, an application is filed in the standard form according to Annex 5a of the Implementing Regulations of the Excise Duties and Tax Warehouses Act, addressed to the Director of the Customs Agency.

Each year, by 31 January, independent small breweries submit to the customs authority by location of the tax warehouse information about the beer produced during the previous year.

**Beneficiaries of the Incentive**

Persons – producers of beer from small independent breweries.

### Tax incentive

### Special procedure for remittance of excise duty on purchased gas oil used in primary agricultural production

**Legal Framework of the Tax Incentive**

The tax incentive is regulated in Article 47a of the Agricultural Producers Support Act and Article 45e of the Excise Duties and Tax Warehouses Act.

**Essence of the Tax Incentive**

The tax incentive is state aid supporting agricultural producers by refunding the excise duty on purchased gas oil used in primary agricultural production. Pursuant to Article 45e(1) of the Excise Duties and Tax Warehouses Act, the Customs Agency shall refund the portion of the excise duty comprising the individual amounts of the state aid as set out under Chapter Four "a" of the Agricultural Producers Support Act by transferring to the Agriculture State Fund the amounts payable to the farmers. Remittance shall be made pursuant to the order and notification of the minister of agriculture and food under Article 47e(5) of the Agricultural Producers Support Act.

**Objective of the Tax Incentive**

The tax incentive aims to support the farmers registered under the Agricultural Producers Support Act and to provide for lighter rules for the fuel they use in the production of primary agricultural products.

**Conditions for Using the Tax Incentive**

The administrator of the state aid scheme in the form of rebate of the value of excise duty on gas oil consumed in primary agricultural production shall be the Minister of Agriculture and Food. Article 47c of the Agricultural Producers Support Act lays down the terms and the conditions for the tax incentive. Entitled to a rebate of the value of excise duty on gas oil consumed in primary agricultural production shall be farmers listed in the Farmers Register who:

1. have no outstanding public liabilities;

2. are not subject to bankruptcy procedure or are not declared bankrupt;
3. are not under a liquidation procedure;
4. are not undertakings in difficulty;
5. did not receive any other public funding for the same costs;

have a valid application for support under the single area payment scheme and the schemes related to production with regard to animals for the year preceding the year of application for the state aid scheme; the farmers rearing types and categories of animals that are outside the scope of the schemes related to production with regard to animals, must possess a holding registered under the Veterinary Practices Act.

Farmers shall submit state aid applications according to a template, format and procedure approved by order of the Minister of Agriculture and Food. The application shall be submitted to the agriculture municipal service with the regional Agriculture Directorate by location of the permanent address of an individual or a sole proprietor or by location of the registered address of a legal entity within a term prescribed by order of the Minister of Agriculture and Food. Copies and an inventory list of the invoices for gas oil purchased shall be attached to the application. Farmers, found in violation of the state aid scheme may not submit application for receiving the same type of aid for a period of two years after the establishment of the violation.

**Beneficiaries of the Incentive**

Farmers registered under the Agricultural Producers Support Act.

## 5.3. TAX INCENTIVES AND RELIEFS UNDER THE CORPORATE INCOME TAX ACT

The following tax incentives and reliefs are regulated in the Corporate Income Tax Act:

### Tax incentive

### Tax rate for corporate income tax – 10%

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 20 of the Corporate Income Tax Act (CIT Act).

**Substance of the Tax Incentive**

The tax incentive consists in a tax rate for the corporate income tax in the amount of 10

per cent.

**Objective of the Tax Incentive**

The tax rate aims at attracting foreign direct investment.

**Conditions for Using the Tax Incentive**

No conditions are set.

**Beneficiaries of the Incentive**

The tax rate is applied in a uniform manner to all taxable persons, regardless of the economic region or sector they are operating and regardless of the operations carried out.

Tax incentive

Exemption from taxation of financial instruments admitted to trading on a regulated market.

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 44, Article 196 and § 1, item 21 of the Additional Provisions of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists in exemption from taxation of the profit, realised from transactions involving certain financial instruments, when the transactions have been admitted to trading on a regulated market. Similarly to the profit, the loss from such transactions is not recognised for taxation purposes.

**Objective of the Tax Incentive**

The tax incentive aims at developing the subsequent trade involving shares (secondary market), thus indirectly promoting investments in the economy. The exemption from taxation results in increasing the net income (the income after taxation) from investments in shares. The encouraging of trade in shares leads to increasing their liquidity, since as a result of the developed trade the holder of shares can sell them more easily. The increase in the net income from shares, accompanied by the increase in their liquidity, gives an advantage to investments in shares compared to investments in other financial instruments, thus ultimately encouraging investments in the economy of Bulgaria. The acquisition of shares leads to investing funds directly in the economy for an extended period of time, since, as opposed to the other ways of financing companies (loans), the funds attracted to the business through shares are used for

longer periods (the funds are subject to refund by the company only when the latter is terminated, as opposed to the funds raised with the help of loans).

**Conditions for Using the Tax Incentive**

The inclusion of government securities (GS) within the scope of the financial instruments aims to ensure the relevant treatment of GS transactions and transactions with shares and rights, units and shares in collective investment schemes and in national investment funds on a regulated market, which will provide additional impetus to the development of the country's capital market as a whole. The introduction of such a tax regime is part of the measures taken to promote trading in GS on a regulated market and urging domestic market infrastructure:

**- regulated securities market –** in order to use the tax concession, the transaction (sale) must have been closed in a regulated securities market in Bulgaria or in another country, which is a member of the EU / EEA. Transactions closed over the counter or at a stock exchange in a third country are taxed in accordance with the general procedure.

- **financial instruments and transactions** for which the concession is allowed are:

1. Units and shares in collective investment schemes and in national investment funds;

2. Shares, rights and government securities performed on a regulated market within the meaning of Article 73 of the Markets in Financial Instruments Act;

3. transactions concluded under the terms and according to the procedure of repurchase or redemption by collective investment schemes which have been admitted to public offering in Bulgaria or in another Member State of the European Union, or in a State which is a Contracting Party to the Agreement on the European Economic Area;

4. transactions concluded under the terms and according to the procedure of redemption by national investment funds which have been admitted to public offering in Bulgaria; the distribution of cash upon liquidation of national investment funds of the closed-end type shall furthermore be regarded as redemption;

5. transactions concluded under the terms and according to the procedure of tender offering under Section II of Chapter Eleven of the Public Offering of Securities Act, or transactions of analogous type in another Member State of the European Union, or in a State which is a Contracting Party to the Agreement on the European Economic Area.

**Beneficiaries of the Incentive**

1. Local legal entities – the profit from the transactions set out above is exempt from corporate income tax, and the loss is not recognised for taxation purposes.

2. Foreign legal entities – the income realised is exempt from tax at the source.

Tax incentive

Exemption from corporate income tax of collective investment schemes, admitted to public offering in Bulgaria, national investment funds under the Collective Investment Schemes and Other Undertakings for Collective Investments Act and the companies with a special investment purpose

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Articles 174 and 175 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists in exemption from corporate income tax of the collective investment schemes, admitted to public offering in Bulgaria, national investment funds under the Collective Investment Schemes and Other Undertakings for Collective Investments Act, and the companies with a special investment purpose under the Companies with a Special Investment Purpose Act.

**Objective of the Tax Incentive**

**1. Collective investment schemes**

Collective investment schemes (CIS) are investment companies or contractual funds, which invest money in securities, money market instruments or other liquid financial assets. The moneys invested by CIS are raised by offering stocks/shares in CIS to legal entities or individuals. In the course of investing, by using the CIS scheme the investor, instead of investing directly in stocks/shares of certain companies, invests indirectly by buying stocks/shares in CIS, which in turn invests in stocks/shares of certain companies. In this way, by buying stocks/shares in CIS, the investor invests in different companies and reduces the assumed risk by diversification. The specific feature of CIS is that each shareholder, respectively holder of stocks, has the right to request that his stocks/shares are bought back at a price, based on the net asset value of the CIS.

The objective of the exemption of CIS from taxation is not to allow double taxation of investment incomes – once at the level of CIS, and once at the level of shareholders, respectively holders of stocks in CIS. The exemption of CIS from taxation results in taxing the investment only at the level of shareholder, respectively the holder of stocks in CIS.

**2. Companies with a special investment purpose**

Companies with a special investment purpose (SIPV) are shareholding companies which invest money in real estates or accounts receivable. Cash is raised by issuing securities (issuing shares) by the SIPV. This process is known as securitisation of real estates or accounts receivable.

SIPVs can close only the following transactions:

- raising funds by issuing securities (issuing shares);

- acquisition of real estates and real rights over real estates, construction and improvement, for the purpose of giving them for management, letting them out, leasing them and selling them, or purchasing and selling accounts receivable. The real estates acquired by SIPVs shall be in the territory of Bulgaria. The accounts receivable acquired by SIPVs shall be to local persons and not be subject to execution.

From the point of view of taxation, the specific tax regime, applicable to SIPVs in the general case, shall be regarded rather as a shifting of taxation to the shareholders in SIPVs than as an exemption from taxation. This is so because the income from dividends of shareholders in SIPVs, which are local legal entities, is taxable, as opposed to the dividends from other companies, which are not. Therefore in these cases the taxation with corporate tax is shifted to the legal entity, shareholder in SIPV.

**Conditions for Using the Tax Incentive**

1. Collective investment schemes and national investment funds.

Exempt from taxation are the collective investment schemes, which are admitted to public offering in the Republic of Bulgaria, and national investment funds under the Collective Investment Schemes and Other Undertakings for Collective Investments Act.

2. Companies with a special investment purpose.

Exempt from taxation are the companies with a special investment purpose under the Companies with a Special Investment Purpose Act.

**Beneficiaries of the Incentive**

The tax incentive can be used by collective investment schemes, national investment funds and companies with a special investment purpose.

Tax incentive

## Exemption from taxation with corporate income tax of the Bulgarian Red Cross

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 176 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists in exemption from taxation with corporate income tax of the Bulgarian Red Cross (BRC).

**Objective of the Tax Incentive**

The exemption of the BRC from taxation is caused by the specific nature of its operations, namely supporting the state in the field of humanitarian activity.

**Conditions for Using the Tax Incentive**

No conditions are set.

**Beneficiaries of the Incentive**

The Bulgarian Red Cross.

Tax incentive

## Exemption from taxation with corporate income tax and tax on the receipts – higher schools

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 96a(1) of the Higher Education Act.

**Substance of the Tax Incentive**

The tax incentive consists in exemption from taxation with corporate income tax and tax on the receipts of the income of state and private higher schools for their main activities, specified in Article 6(1) of the Higher Education Act.

Pursuant to the provision of Article 6(1) of the Higher Education Act, the object is:

1. Training of specialists capable of developing and applying scientific knowledge in various spheres of human activity;

2. Upgrading the qualifications of specialists;

3. Development of science, culture and innovations.

**Objective of the Tax Incentive**

The objective of the tax incentive is to promote higher education in Bulgaria.

**Beneficiaries of the Incentive**

Higher schools, which have received accreditation and have been established under the conditions and in accordance with the procedure, specified in the Higher Education Act.

Tax incentive

Exemption from taxation with corporate income tax and tax on the receipts – Bulgarian Academy of Sciences, Agricultural Academy, etc.

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 96a(2) of the Higher Education Act.

**Substance of the Tax Incentive**

The tax incentive consists in exemption from taxation with corporate income tax and tax on the receipts for their activities related to the training of PhD students, of the Bulgarian Academy of Sciences, the Agricultural Academy, the national centres on the problems of human health and other scientific organisations.

**Objective of the Tax Incentive**

The objective of the tax incentive is to promote post-graduate qualification and training in Bulgaria.

**Beneficiaries of the Incentive**

The organisations specified in Article 47(1) of the Higher Education Act.

Tax incentive

Remission of up to 100 per cent of the corporate income tax for undertakings engaging in manufacturing activities in municipalities with high unemployment

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Articles 184-189 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists remission of corporate income tax up to 100 per cent to the benefit of enterprises conducting production activities in municipalities with a high unemployment rate.

In the meaning of § 1, item 28 of the Additional Provisions of the Corporate Income Tax Act, "Production activity" under Article 184 shall denote the process of creating a new product by way of mechanical, physical or chemical transformation (processing or reprocessing) of raw materials and materials for the purpose of subsequent realisation and biological transformation of live animals or plants. There is no production activity in case of creation of a new product in the energy and aviation sector, including the construction of airports, airport infrastructure and accompanying activities, in cases of state aid for regional development.

**Objective of the Tax Incentive**

The objective of the tax incentive is to promote investments in municipalities with high unemployment.

**Conditions for Using the Tax Incentive**

To use the incentive, the following conditions shall be satisfied:

1. The taxable entity:

- carries out manufacturing activities solely in municipalities where the rate of unemployment for the year preceding the current year was by 25 per cent or more higher than the national average for the same period – in the cases of de minimis aid;

- carries out manufacturing activities by implementing an initial investment project solely in municipalities where the rate of unemployment for the year preceding the year of filing an application from for aid was by 25 per cent or more higher than the national average for the same period – in the cases of regional development aid;

2. Over the entire tax period the taxable entity maintains no less than 10 working places, with at least 50 per cent of them directly engaged in the production activity being performed;
3. Over the entire tax period no less than 30 per cent of the staff is persons having their permanent address in municipalities under item 1.

The enterprise shall choose whether to use the preference as:

- de minimis aid, or

- state aid for regional development,

depending on its choice, it shall satisfy certain requirements of the law (Articles 188 and

189 of the CIT Act), based on the requirements of the EU legislation in the field of de minimis state aid.

**Beneficiaries of the Incentive**

The tax incentive can be used by local legal entities and establishments in Bulgaria of foreign entities (branches and other).

Where the tax incentive is de minimis aid, it shall not apply with regard to:

1. Fisheries and aquaculture sector – fisheries and aquaculture sector, and pursuant to Council Regulation (EC) No 104/2000 on the common organisation of the markets in fishery and aquaculture products;

2. Taxable entity, active in the primary production of agricultural products – the agricultural products are listed in Annex I to the Treaty on the Functioning of the European Union;

3. Taxable entity, active in the processing and marketing of agricultural products – the agricultural products are listed in Annex I to the Treaty on the Functioning of the European Union;

4. Investments in any road freight transport vehicles, where provided by a taxable person performing road freight transport for hire or reward;

5. Investments in assets used in activities, related to exports to third countries or Member States.

Where the tax relief is state aid for regional development, it shall not apply to taxable entity, which:

1. Are active in the sectors of transport, coal, steel, energy, synthetic fibres manufacture, fisheries and aquaculture, as well as primary production, processing and marketing of agricultural products listed in Annex I to the Treaty on the Functioning of the European Union, for the respective activity;

2. Are subject to liquidation or rehabilitation proceedings;

3. Are defined as undertakings in difficulty;

4. Independently or at group level, they close the same or similar production activity in a European Union member state or in another state which is a party to the Agreement on the European Economic Area two years before the date of filing of an application form for aid or, if at the time of its filing they intend to close such production activity within two years after the

completion of the initial investment, for which corporate tax will be allowed to be retained;

5. Have not complied with a decision of the European Commission to recover received unlawful and incompatible state aid and have not recovered the aid in full.

## Tax incentive

### Remission of up to 60 per cent of the corporate income tax for registered agricultural producers

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 189b of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists remission of up to 60 per cent of the corporate income tax to taxable persons, registered as agricultural producers, for their tax profit from operations related to the production of unmanufactured vegetable and animal products.

In the meaning of § 1, item 27 of the Additional Provisions of the CIT Act, “Unmanufactured vegetable and animal products” shall denote any primary product obtained from plants or animals which is used in its natural form without having undergone any technological processing or reprocessing resulting in physical and chemical changes in the composition thereof, and is listed in Annex I to the Treaty on the Functioning of the European Union.

**Objective of the Tax Incentive**

The objective of the tax incentive is to promote investments in agriculture.

**Conditions for Using the Tax Incentive**

To use the tax incentive, the following conditions shall be satisfied:

1. The remitted tax shall be invested in new buildings and new agricultural equipment acquired by the end of the year, following the year in which the remission is used.

In the meaning of § 1, item 60 of the Additional Provisions of the Corporate Income Tax Act, “Agricultural equipment for the purposes of Article 189b” shall be the self-propelled, hauled and stationary machines, facilities, installations and devices used in agriculture.

2. The acquisition of the assets (new buildings and new agricultural equipment) shall be carried out in market conditions corresponding to the conditions where unrelated parties trade;

3. The operations related to the production of unmanufactured vegetable and animal products shall continue for a period of at least three years after the year of the assigning;

4. The remitted tax shall not exceed 50 per cent of the value of the building and agricultural equipment acquired as determined as of the date of granting the aid; the interest rate for the purposes of determining the present value of the assets is the reference interest rate determined by the European Commission as of 31 December of the year of retention;

5. The present value of the buildings and agricultural equipment acquired, as determined as of the date of granting the aid, may not exceed a threshold which is the BGN equivalence of EUR 500,000; the interest rate for the purposes of determining the present value of the assets is the reference interest rate determined by the European Commission as of 31 December of the year of retention

6. The determined threshold of the BGN equivalence of EUR 500,000 may not be circumvented by artificial splitting up of the assets;

7. The building and agricultural equipment acquired shall not replace existing buildings and equipment;

8. With regard to the buildings and agricultural equipment, the farmer should not be a beneficiary of any of the following aids:

- aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union;

- de minimis aid within the meaning of Commission Regulation (EU) No 1408/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid in the agriculture sector;

- financial aid under the Rural Development Programme;

- any other public financial aid from the national budget and/or the budget of the European Union.

**Beneficiaries of the Incentive**

The tax incentive can be used by legal entities registered as agricultural producers.

## Tax incentive

### Tax incentives upon granting of scholarships

**Legal Framework of the Tax Incentive**

The tax incentive is regulated in article 177a of the Corporate Incomes Tax Act.

**Essence of the Tax Incentive**

The accounting costs for a scholarship issued and granted to a student acquiring secondary education or to a student in a school in a European Union member state, or in another state which is a party to the Agreement on the European Economic Area are recognized for tax purposes, for a period of no less than 12 and no more than 24 months and as at the time of granting of the scholarship the following conditions are fulfilled.

**Objective of the Tax Incentive**

The tax incentive is intended to stimulate the decrease of youth unemployment by providing employment to school and university students, by using the form of scholarships granted by the business. Provision of a first job for young people and decrease of the social assistance costs is thus enabled.

**Conditions for using the Tax Incentive**

In order to use the tax incentive the following conditions need to be fulfilled:

1. the scholar is student in the last two grades of the secondary education system or a student in the last two years of the system for acquisition of a “Bachelor” or “Master” educational degree and has not attained 25 years of age;

2. the scholar’s profession is applicable to the taxable entity’s activity;

3. the taxable entity has undertaken by the scholarship contract to provide job to the scholar for a period that is not shorter than the total number of months, for which the scholarship is granted.

**Beneficiaries of the Incentive**

The tax incentive may be used by all taxable entities that fulfil the conditions.

## Tax incentive

### Remission of corporate income tax for undertakings employing people with disabilities

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 178 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists in the remission of the corporate income tax of legal entities –

specialised enterprises or cooperative societies within the meaning of the Integration of People with Disabilities Act, which employ people with disabilities.

**Objective of the Tax Incentive**

The tax incentive has a social objective. The objective of the incentive is to encourage the said enterprises and cooperative societies to employ people with disabilities and thus help their easier integration in society.

**Conditions for Using the Tax Incentive**

To use the tax incentive, the following conditions shall be satisfied:

1. The corporate income tax is fully remitted for enterprises, in which:

- 20% of the total number of staff are people of poor eyesight, or
- 30% of the total number of staff are people of poor hearing, or
- 50% of the total number of staff are people suffering from other impairments.

2. Where the requirements of the condition above regarding the number of people employed are not met, the corporate income tax is remitted proportionately to the ratio of the number of people with disabilities and occupationally rehabilitated people to the total number of staff;

3. Remission is admissible where the remitted tax is used in full for integration of people with disabilities or for maintaining and creating jobs for occupationally rehabilitated people during the two years following the year, for which the assigning is used.

4. Persons to which corporate income tax is remitted shall be members of nationally representative organisations of people with disabilities and for people with disabilities.

**Beneficiaries of the Incentive**

The tax incentive can be used by specialised enterprises or cooperative societies within the meaning of the Integration of the People with Disabilities Act, which are members of the nationally representative organisations of people with disabilities and for people with disabilities.

Pursuant to Article 28(1) of the Integration of People with Disabilities Act, specialised enterprises and cooperative societies of people with disabilities are these which meet the following conditions:

1. they are registered under the Commerce Act or the Cooperative Societies Act;

2. they produce goods or provide services;

3. they have a relative share of people with permanent disabilities as follows:

a) for specialised enterprises or cooperative societies of blind people and people with impaired eyesight – not less than 20 per cent of the staff complement;

b) for specialised enterprises or cooperative societies of people with impaired hearing – not less than 30 per cent of the staff complement;

c) for specialised enterprises or cooperative societies of people with other disabilities – not less than 30 per cent of the staff complement;

4. they are registered in the register under Article 29.

As at 31 December of the corresponding year the specialised enterprise or cooperative society shall be a member of a nationally representative organisation of people with disabilities and for people with disabilities.

## Tax incentive

### Remission of 50 per cent of the corporate income tax for social security and health insurance funds

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 181 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive comprises remission of the corporate income tax in the amount of 50 per cent to the social security and health insurance funds, created by virtue of law, on their business activity that is either directly connected with or helpful to the performance of their basic activity.

**Objective of the Tax Incentive**

The objective of the tax incentive is to support social security and health insurance funds to perform their basic activity and achieve the objectives they have been established for.

**Conditions for Using the Tax Incentive**

To use the incentive, the following conditions shall be satisfied:

1. The remission of corporate income tax is admissible only with regard to the business activity of social security and health insurance funds, that is either directly connected with or helpful to the performance of their basic activity;

2. The remitted tax shall be invested in the basic activity by the end of the year, following the year in which the remission is used.

**Beneficiaries of the Incentive**

The tax incentive can be used by social security and health insurance funds created by virtue of law.

### Tax incentive

#### Remission of 50 per cent of the tax on the receipts of budgetary organisations

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 251 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive comprises remission of the corporate income tax in the amount of 50 per cent of the tax on the receipts of the scientific research budgetary organisations, the state higher schools, the state and municipal schools of the public education system for their economic activity which is either directly connected with or helpful to the performance of their basic activity.

**Objective of the Tax Incentive**

The objective of the tax incentive is to support scientific research budgetary organisations, state higher schools, state and municipal schools of the public education system to perform their basic activity and achieve the objectives they have been established for.

**Conditions for Using the Tax Incentive**

The remission of tax is admissible only with regard to the business activity that is either directly connected with or helpful to the performance of the basic activity of the specified entities.

**Beneficiaries of the Incentive**

The tax incentive can be used by scientific research budgetary organisations, state higher schools, and state and municipal schools of the public education system.

## Tax incentive

### Accelerated tax depreciation

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 55(3) and (6) of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists in accelerated tax depreciation of machinery, production equipment and apparatuses which are part of the initial investment or have been acquired in connection with an investment made to increase energy efficiency. The annual tax depreciation rate is up to 50% (in the general case the annual tax depreciation rate for these assets is 30%).

In the meaning of § 1, item 29 of the Additional Provisions of the Corporate Income Tax Act, “Initial investment” shall denote an investment in new tangible and intangible assets, which is acceptable expenditure related to:

1. the launching a new activity;

2. the expanding an existing activity,

3. the diversifying of the manufactured products through the development of new products;

4. general change in the existing production process.

The investment in an asset which replaces an existing asset shall not be initial investment.

**Objective of the Tax Incentive**

The objective of the tax incentive is to provide incentives to enterprises to acquire new assets, comprising part of an investment project. Accelerated tax depreciation results in saving of cash during the first two years of using the assets by paying less corporate income tax, at the expense of the corporate income tax during the following years, when assets will continued being in use, but no tax depreciation will be charged in connection with them, because they will be depreciated for tax purposes.

**Conditions for Using the Tax Incentive**

So that accelerated tax depreciation is applied to these assets (machinery, production equipment and apparatuses) in the amount of 50% per annum, the following conditions need to be met:

1. Assets need to form part of an initial investment;

2. Assets have to be brand-new and have not been used prior to their acquisition.

Where the machinery, production equipment and apparatuses are acquired in connection with an investment made for increasing the energy efficiency, the investment does not need to satisfy the requirements for initial investment, and the acquired assets only need to be brand new.

**Beneficiaries of the Incentive**

The tax incentive can be used by local legal entities and permanent establishments in Bulgaria of foreign entities forming their profit in accordance with the procedure of the Corporate Income Tax Act.

## Tax incentive

### Accelerated tax depreciation (100% per annum) for assets formed as a result of research and development activities

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Article 69 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists in recognition as tax expenditure of the historic cost of tangible long-term assets formed as a result of research and development activities once in the year in which it was formed, i.e. accelerated tax depreciation of 100%.

In the meaning of § 1, item 24 of the Additional Provisions of the Corporate Income Tax Act, "Research activity" shall denote the activity of development, design, creating and testing of new goods, materials, production technology and technology for industrial systems and other objects of industrial property, as well as the improvement of existing products and technology.

**Objective of the Tax Incentive**

The objective of the tax incentive is to promote research and development activities.

**Conditions for Using the Tax Incentive**

To use the incentive, the following conditions shall be satisfied:

1. the asset shall have been formed as a result of research and development activities;

2. the research and development activities shall have been carried out in connection with the occupation of the taxable person;

3. the research and development activities shall have been assigned by way of an order to a scientific research institute or a higher-education institution under free-market conditions.

**Beneficiaries of the Tax Incentive**

The tax incentive can be used by local legal entities and permanent establishments in Bulgaria of foreign entities forming their profit in accordance with the procedure of the Corporate Income Tax Act.

## Tax incentive

### Tax losses carry forward

**Legal Regulation of the Tax Incentive**

The tax incentive is regulated in Articles 70–74 of the Corporate Income Tax Act.

**Substance of the Tax Incentive**

The tax incentive consists in the right of taxable persons subject to corporate income tax to carry forward tax loss, formed in accordance with the procedure of Part II of the CIT Act.

Tax loss is the negative financial result obtained in the course of transforming the financial result for accounting purposes with:

- the permanent tax differences;
- the temporary tax differences;
- the amounts envisaged in the CIT Act.

The right of choice regarding the carrying forward of tax loss can be exercised by the persons during the first year in which they have formed positive financial result for taxation purposes before the tax loss is deducted.

**Objective of the Tax Incentive**

The objective of the tax incentive is to promote foreign direct investment in high-risk sectors and activities with an uncertain return and generating losses during the first years of the investment.

**Conditions for Using the Tax Incentive**

The tax loss is carried forward:

- gradually, in the course of the 5 subsequent years, until all of it has been carried forward;

- up to the amount of the positive financial result for taxation purposes.

Where the tax loss is smaller than the positive financial result for tax purposes, the full amount of the tax loss is deducted.

- when determining the quarterly advance contributions for corporate income tax.

Newly incurred tax losses are carried forward in the following order:

- in the order in which they have been incurred;
- gradually, in the course of the 5 subsequent years;
- for each newly incurred loss the 5-year period shall start from the year following the year of its incurrence.

Applying the method of "Exemption with progression" to a loss from a source abroad

Where a tax loss is formed in the course of the current year in a State with which the Republic of Bulgaria has signed a convention for the avoidance of double taxation, and the method of avoidance of double taxation regarding profits is the "Exemption with progression" method, the loss shall not be deducted from the tax profits derived either in the current year or in the subsequent years from a source located either within the country or in other States.

The tax loss shall be deducted:

- only from the tax profits derived from the source abroad;
- gradually, in the course of the 5 subsequent years.

Upon suspension of the activity of a business establishment in a Member State of the European Community or the European Economic Area, those tax losses from the permanent establishment which have not been carried forward or recovered shall be carried forward until the expiry of the 5-year period from their incurrence from the profit, realised from the activity in the Republic of Bulgaria, in accordance with the general procedure, regulated in the CIT Act.

Applying the method of tax input (credit method) to a loss from a source abroad

Where a tax loss is formed from a source abroad and the tax input method of avoiding double taxation applies, the current year's loss that has not been deducted shall be deducted in the following order:

- gradually, in the course of the 5 subsequent years;
- only from the tax profits derived from the said source abroad.

The above shall not apply to any losses from a source within a Member State of the

European Union or of the European Economic Area.

Where the tax loss for the year is formed from more than one source (located in a foreign State or within the country), it shall be distributed among the States in which it has occurred, in accordance with the formula as follows:

**A = B x C/D**, where:

**A** is the part of the taxable person's tax loss for the year, allotted to the respective source (located in a foreign State or within the country);

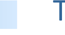
**B** is the tax loss of the taxable person for the year;

**C** is the tax loss formed by the respective source;

**D** is the aggregate of the tax losses formed by all sources (located in a foreign State or within the country).

**Beneficiaries of the Tax Incentive**

The tax incentive can be used by local legal entities and permanent establishments in Bulgaria of foreign entities forming their profit in accordance with the procedure of the Corporate Income Tax Act.



## Tax relief

### Tax deductible expenses for donation

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 31(1) to (4) of the Corporate Income Tax Act.

**Substance of the Tax Relief**

Accounting expenses on donations up to a certain amount and made in favour of a certain category of persons are recognised for tax purposes.

**Objective of the Tax Relief**

The objective of the tax relief is to encourage enterprises to make donations in favour of certain categories of persons.

**Conditions for Using the Tax Relief**

Expenses on donations are recognised for tax purposes when the following conditions are met:

- **When they are in an amount not exceeding 10 per cent of the accounting profit and have been made in favour of:**

1. healthcare establishments and medical treatment establishments;

2. specialised institutions for the provision of social services;

3. specialised institutions for children under the Child Protection Act, care homes for children deprived of parental care and medical and social child care homes according to the Medical Treatment Facilities Act;

4. public nurseries, kindergartens, schools, higher schools and academies;

5. budgetary organisations;

6. religious denominations registered within the country;

7. specialised enterprises or cooperative societies of people with disabilities, and in favour of the Agency for People with Disabilities;

8. people with disabilities and technical relief devices for them;

9. persons who have suffered damage in crises or the families thereof;

10. the Bulgarian Red Cross;

11. low-income persons;

12. children with disabilities or children who have no parents;

13. cultural institutions, or for the purpose of cultural, educational or scientific exchange under an international treaty, to which Republic of Bulgaria is a party;

14. not-for-profit legal entities registered in the Central Register of not-for-profit legal entities for the purpose of carrying out activities for the public benefit, with the exception of those organisations which support culture within the meaning of the Patronage Act;

15. “Energy Efficiency and Renewable Sources” Fund;

16. communes for treatment of drug addicts, as well as in favour of drug addicts for the purpose of their medical treatment;

17. the children’s fund of the United Nations (UNICEF).

- **When they are in an amount not exceeding 50 per cent of the accounting profit and have been made in favour of:**

1. the “Fund for Treatment of Children” Centre;
2. the „Assisted Reproduction“ Centre.

- **When they are in an amount not exceeding 15 per cent of the accounting profit and have been made in favour of:**

Aid provided freely under the conditions and in accordance with the procedure set forth in the Patronage Act.

The expenses of donations of computers and their peripheral devices manufactured within one year prior to the date of donation, and made in favour of Bulgarian schools, including higher-education ones, shall be recognised for tax purposes.

The total amount of donation expenses recognised for tax purposes may not exceed 65 per cent of the accounting profit.

The above procedure shall be also applied to donations made in favour of persons, identical or similar to these above, established in or citizens of another EU Member State, or a country, which is a party to the Agreement on the European Economic Area, where the person who has made the donation has an official legalised document certifying the status of the beneficiary of the donation issued by a competent authority of the corresponding foreign country and translated into the Bulgarian language by a sworn translator.

The total expense of donations shall not be recognised for tax purposes in those cases where those managers who grant it or those managers who dispose of it benefit from it, either directly or indirectly, or evidence is present showing that the donation has not been received.

**Beneficiaries of the Relief**

The tax relief can be used by local legal entities and permanent establishments in Bulgaria of foreign entities forming their profit in accordance with the procedure of the Corporate Income Tax Act.

## Tax relief

### Tax exemption of social benefit expenses for food vouchers

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 209 of the Corporate Income Tax Act and Ordinance No. 7 of 09/07/2003 on the conditions and procedure for issuing and revoking a licence for

carrying out activities as an operator of food vouchers and conducting activities as an operator.

**Substance of the Tax Relief**

The food vouchers in the amount of up to BGN 60 per month per worker / employee are:

1. Social expense, exempt from one-off tax under the Corporate Income Tax Act;
2. Recognised expense for tax purposes under the CIT Act;
3. Exempt from taxation on the income of the worker / employee;
4. No social security contributions are paid on the funds, provided in the form of vouchers for food.

In the meaning of § 1, item 36 of the Additional Provisions of the Corporate Income Tax Act, "Food vouchers" shall denote a type of exchange papers provided through the employer to the workers and employees, including those under management contracts, these papers being used as a means of payment in restaurants, fast-food establishments and sites for trade in foodstuffs in accordance with a service contract signed with an operator.

**Objective of the Tax Relief**

The objective of this relief is to encourage employers to incur social expense in the form of giving food to workers and employees, for the purpose of restoring the working capacity and increasing the labour productivity of the people employed.

**Conditions for Using the Tax Relief**

To use the relief, the following conditions shall be satisfied:

1. The food vouchers shall be in the amount of up to BGN 60 per month per employed person;
2. The food vouchers shall be available to all workers / employees;
3. The food vouchers provided shall not be at the expense of the remuneration of the worker / employee;

The agreed person's basic monthly remuneration for the month in which the voucher is provided shall not be lower than the person's average monthly basic remuneration for the preceding three months;

4. The employer shall have no enforceable public liabilities at the time the vouchers are provided;
5. The vouchers shall be provided to the employer by a person having permission for

carrying out activities as an operator of food vouchers.

In the meaning of § 1, item 35 of the Additional Provisions of the Corporate Income Tax Act, "Operator" under Article 209 shall denote a person that has obtained permission from the Minister of Finance and carries out activities of printing out, organising, supervising and settling the accounts connected with vouchers for food in accordance with the procedure set forth by way of an Ordinance of the Minister of Labour and Social Policy and the Minister of Finance.

**Beneficiaries of the Relief**

The relief can be used by all employers, where the statutory requirements are fulfilled. There is no restriction regarding the sectors in which the concession related to food vouchers can be used.

## Tax relief

### Tax exemption of the social expenses on contributions and premiums for additional voluntary social insurance and life insurance

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 208 of the Corporate Income Tax Act.

**Substance of the Tax Relief**

The expenditure incurred by employers on contributions for additional voluntary social insurance and health insurance and life insurance of workers / employees in the amount of up to BGN 60 per month per worker/employee are:

1. Social expense exempt from one-off tax under the Corporate Income Tax Act;
2. Recognised expense for tax purposes under the CIT Act;
3. Exempt from taxation on the income of the worker / employee.

Additional voluntary social insurance is the insurance under Section Two, Titles Three (additional voluntary pension insurance) and Four (additional voluntary insurance for unemployment or professional qualification) of the Social Insurance Code, as well as analogous insurance in accordance with the legislation of an EU / EEA member state.

Voluntary health insurance is the insurance under Chapter Three of the Health Insurance Act (voluntary health insurance), as well as analogous insurance in accordance with the legislation of an EU / EEA member state.

Life insurance is the types of insurance under Section I, item 1 (Life Insurance and Annuity) and item 3 (Unit-Linked Life Insurance) of Appendix No. 1 to the Insurance Code, concluded by insurers licensed in accordance with the Insurance Code, or by insurers with a registered office an EU/EEA member state, operating under the conditions of the right to establishment or the freedom to provide services.

**Objective of the Tax Relief**

The objective of this relief is to encourage additional voluntary insurance and life insurance.

**Conditions for Using the Tax Relief**

To use the relief, the following conditions shall be satisfied:

1. The contributions made by employers for additional voluntary pension and health insurance, and life insurance shall be in the amount of up to BGN 60 per month per employed person;

2. The insurance shall be available to all workers / employees;

3. The employer shall have no enforceable public liabilities at the time the expenditure is incurred.

**Beneficiaries of the Tax Relief**

The tax relief can be used by all employers, where the statutory requirements are fulfilled.

## Tax relief

### Exemption from taxation of social expenses of transportation of workers and employees, and the persons employed under management and supervision contracts

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 210 of the Corporate Income Tax Act.

**Substance of the Tax Relief**

Expenses incurred by employers for transportation of workers and employees from the place of residence to the place of work and back are not subject to taxation under Article 204(1), item 2 of the CIT Act.

**Objective of the Tax Relief**

The tax relief has a social objective. The objective of the relief is to encourage employers to assume the costs of transportation of workers and employees from the place of residence to the place of work and back.

**Conditions for Using the Tax Relief**

To use the relief, the following conditions shall be satisfied:

1. The transport shall be from the place of residence to the place of work and back;
2. All workers / employees shall be entitled to use this social benefit;
3. The transportation shall not be carried out with a car or using additional bus lines.

In the meaning of § 1, item 38 of the Additional Provisions of the Corporate Income Tax Act, "Additional bus lines" shall denote the bus lines of a well-established transport scheme the regime of which ensures the stopping of buses and the passengers' getting on and off the buses where the passengers so require, in places where stopping is permitted, the said lines complementing the main lines of urban transport without duplicating them completely.

**Beneficiaries of the Tax Relief**

The tax relief can be used by all employers, where the statutory requirements are fulfilled.

## Tax relief

### Tax relief for hiring unemployed persons

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 177 of the Corporate Income Tax Act.

**Substance of the Tax Relief**

Employers having employed an unemployed person under certain conditions are entitled to recognising for tax purposes of an amount equal to twice the expenditure on employment remuneration and social security contributions at the expense of the employer for the PSS and NHIF. This recognition is for the first 12 months of employment of the person.

**Objective of the Tax Relief**

The objective of the tax relief is to encourage employers to employ unemployed persons, thus increasing employment and decreasing unemployment.

**Conditions for Using the Tax Relief**

To use the tax relief, the following conditions shall be satisfied:

1. The unemployed person shall have been employed under an employment contract for at least 12 consecutive months;

2. As at the time of being employed, the person shall:

- have been registered as an unemployed person for more than a year, or
- be a registered unemployed person aged 50 or more, or
- be an unemployed person of reduced capacity for work.

3. No amounts shall have been received for the person under the Employment Promotion Act and Investment Promotion Act.

**Beneficiaries of the Relief**

The relief can be used by all employers having employed unemployed persons, when the above conditions have been met. There is no restriction regarding the sectors in which the tax relief can be used.

## Tax relief

### Exemption from withholding tax of:

1. any income from interest payments on bonds or other debt instruments issued by a resident legal person, the state and the municipalities;

2. any income from interest payments on a loan extended by a non-resident person which is an issuer of bonds or other debt instruments;

3. any income from interest payments on a loan under which the state or the municipalities are the borrower and under which no bonds are issued.

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 195(6), items 1, 2 and 4 of the Corporate Income Tax Act.

**Substance of the tax relief by type of income:**

**1.** ***any income from interest payments on bonds or other debt instruments issued by a resident legal person, the state and the municipalities***

Exempt is any income of non-resident legal persons from interest payments on bonds or other debt instruments issued by a resident legal person, the state and the municipalities,

where the bonds are admitted to trading on a regulated market in the country or in a Member State of the European Union, or in another State which is a Contracting Party to the Agreement on the European Economic Area.

**2.** ***any income from interest payments on a loan extended by a non-resident person which is an issuer of bonds or other debt instruments***

The income from interest payments on a loan extended to a resident legal person by a non-resident person that is an issuer of bonds or other debt instruments is exempt under certain conditions.

**3.** ***any income from interest payments on a loan under which the state or the municipalities are the borrower and under which no bonds are issued***

Any income of non-resident legal persons from interest payments on a loan under which no bonds are issued and under which the state or the municipalities are the borrower is exempt from withholding tax.

**Objective of the Tax Relief**

The objective of the relief which provides for exemption of certain types of income from withholding tax is to alleviate the tax regime and thus to enhance the access to financing, including by means of alternative sources – issuing bonds on a regulated market, issuing bonds and providing the resulting funds for the financing of a resident legal person, and borrowing of funds by the state and the municipalities. In addition to facilitating access to financing of resident legal persons, the state and the municipalities, this also encourages the development of the capital market through the trading in this type of debt instruments.

**Conditions for using the Tax Relief**

To use the tax relief, the following conditions shall be satisfied:

- The income should be accrued by a non-resident legal person which does not have any permanent establishment in the country, and:

**1. any income from interest payments on bonds or other debt instruments issued by a resident legal person, the state and the municipalities**

The bonds or the other debt instruments should be admitted to trading on a regulated market in the country or in a Member State of the European Union, or in a State which is a Contracting Party to the Agreement on the European Economic Area.

**2. any income from interest payments on a loan extended by a non-resident person which is an issuer of bonds or other debt instruments**

- The issuer should be resident person for tax purposes of the Member State of the European Union or of the State which is a Contracting Party to the Agreement on the European Economic Area.

- The issuer should have issued the bonds or the other debt instruments for the purpose of lending the proceeds therefrom to a resident legal person.

- The bonds or the other debt instruments should be admitted to trading on a regulated market in the country or in a Member State of the European Union, or in another State which is a Contracting Party to the Agreement on the European Economic Area.

**3. any income from interest payments on a loan under which the state or the municipalities are the borrower**

- There are no bonds issued under the loan.

**Beneficiaries of the Relief**

The tax relief can be used by non-resident legal persons for the income from such interest payments when the income is not accrued through a permanent establishment in the country.

### 5.4. TAX INCENTIVES AND RELIEFS UNDER THE PERSONAL INCOME TAX ACT

The following tax incentives and reliefs are regulated in the Personal Income Tax Act:

#### Tax Incentives for Sole Proprietors

Sole proprietors, conducting business and forming tax profit in accordance with the procedure of the Corporate Income Tax Act, can use the following tax incentives, regulated in the CIT Act:

- accelerated tax depreciation;

- accelerated tax depreciation (100% per annum) for assets formed as a result of research and development activities;

- expenses on donations recognised for tax purposes;

- tax losses carry forward (Article 26(3) of the Personal Income Tax Act (PIT Act)) – the provisions of the Corporate Income Tax Act apply;

- exemption from taxation of social expenses on food vouchers;

- exemption from taxation of social expenses of transportation of workers and employees, and the persons employed under management and supervision contracts;

- exemption from taxation of the social expenses on contributions and premiums for additional voluntary social insurance and life insurance;

- exemption of financial instruments admitted to trading on a regulated market;

- tax relief for hiring unemployed persons;

- tax incentive for granting of scholarships;

- remission of up to 60 per cent of the tax to sole proprietors registered as agricultural producers (Article 48(6) and (7) of the PIT Act) – the provisions of the Corporate Income Tax Act apply.

**See:** Tax Incentives and Reliefs under the Corporate Income Tax Act.

## Tax relief

### Tax exemption of certain types of personal income

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 13(1) of the Personal Income Tax Act.

**Substance of the Tax Concession**

The tax relief consists in exemption from taxation of the following income, received by local and foreign individuals, including sole proprietors:

1. Income received during the year of taxation from the sale or exchange of:

a) one immovable housing property, if more than three years have passed between the date of acquisition and the date of the sale or exchange;

b) up to two pieces of immovable property, or agricultural property and forest land plots regardless of the number thereof, provided that the time elapsed between the date of acquisition and the date of sale or exchange is more than 5 years.

2. Income originating from sale or exchange of movable property, with the exception of the following:

a) road, air and water means of transport, provided that the time elapsed between the date of acquisition and the date of sale or exchange is less than 1 year;

b) works of art, objects for collections and antiquities;

c) stocks, shares, compensatory instruments, investment bonds and other financial assets, as well as the income originating from trade in foreign currency;

d) movable property delivered to persons having the right to perform collection, transportation, utilisation or disposal of waste in accordance with the Waste Management Act.

3. Income originating from transactions involving financial instruments in the meaning of § 1, item 11 of the Additional Provisions of the Act.

4. Profit, or any other source of the commercial company's equity, which has been distributed in the form of new stocks and shares, as well as the profit, or any other source of equity, which has been distributed in the form of increase of the par value of current stocks and shares.

5. Persons' income originating from compensation in accordance with a statutory instrument, this being compensation for the sale or exchange of the compensatory instruments and investment bonds received as compensation.

6. Income from mandatory insurance in Bulgaria or abroad.

7. Income from:

- additional voluntary insurance, this income being received after acquiring the right to additional pension;

- from the investment of technical reserves received under insurance contracts;

- from investment of the assets of the additional pension insurance funds distributed among the individual accounts of the insured persons.

8. Interest on and discount from Bulgarian government, municipal and corporative bonds, as well as similar bonds, issued in accordance with the legislation of another EU Member State or another member state of the Agreement on the European Economic Area.

9. Interest on receivables established through the courts, these receivables not being subject to taxation, and the adjudged compensation for court costs.

10. Adjudged compensation and other payments in the cases of medium and grievous bodily injury, occupational disease or death.

11. Compensation for forcible expropriation of property for the needs of the State and the municipalities.

12. Compensation for pecuniary and non-pecuniary damages, with the exception of the compensation for loss of profit.

13. Insurance indemnities in those cases where an insurance event has occurred.

14. Social insurance benefits and aids received on the grounds of the Integration of People with Disabilities Act, the Protection of Children Act, the Family Allowances for Children Act, or on the grounds of another statutory instrument, as well as the unemployment compensations and benefits received by virtue of a statutory instrument.

15. Aids from social activity organisations established under the law, and from not-for-profit legal entities registered for the purpose of carrying out activities for the public benefit.

16. Amounts received on the grounds of the Family Allowances for Children Act, as well as the amounts for maintenance received by the persons authorised thereof under the provisions of the Family Code.

17. Scholarships awarded to natural persons for their training within the country and abroad.

18. Pecuniary amounts and gifts received on the grounds of a statutory instrument by donors of blood, blood components and biological products for humane purposes.

19. Prizes in money or in kind received from participation in games of chance organized by virtue of a licence issued under the procedure of the Gambling Act or the legislation of another Member State of the European Union or a State which is a Contracting Party to the Agreement on the European Economic Area.

20. Prizes awarded in the form of an additional game or a prize in kind of insignificant value by amusement gambling machines within the meaning of the Gambling Act or according to the legislation of another Member State of the European Union or a State which is a Contracting Party to the Agreement on the European Economic Area, as well as prizes in kind of insignificant value from other games of chance.

21. The State and national awards granted to authors in the field of culture and sportsmen and the awards granted to winners in competitions under programmes and projects which are either wholly or partially financed by the "Culture" National Fund , the prizes in money bestowed for special services to the Bulgarian State and the nation as well as the awards granted to students with talents for their participation in national and international Olympiads, contests and competitions.

22. Amounts for travel and accommodation allowances received under relationships other than employment ones, providing that they are at the expense of the assignor and that has been evidenced through documents in accordance with the extant legislation, as well as the daily allowances, providing that they do not exceed the double amount of those for persons

under employment relationships.

23. Income originating from rent, lease or any other granting of the use of agricultural land for consideration.

24. The remuneration of:

- the members of the staff of diplomatic missions in accordance with Vienna Convention on Diplomatic Relationships;

- the members of consulates in accordance with Vienna Convention on Consular Relationships;

- the staff of inter-State and intergovernmental organisations in accordance with the international treaty concluded with the respective organisation, and the members of the families of the said persons, inasmuch as the respective international treaty provides for that.

25. Income originating from the sale or exchange of property acquired by right of succession or legacy, as well as property that has been restituted in accordance with the procedure set forth in a statutory instrument.

26. Consumer dividends from cooperative societies established under the Cooperative Societies Act.

27. Funds received under the “Erasmus+” Programme of the European Union in the area of education, training, youth and sport.

**Objective of the Tax Relief**

The tax relief under Article 13(1) of the Personal Income Tax Act, i.e. tax exemption of certain types of income of the persons listed in the above provision, has a social objective.

**Conditions for Using the Tax Relief**

There are no special conditions for using the tax relief.

**Beneficiaries of the Relief**

Local individuals with income originating from sources in Bulgaria and abroad, and foreign individuals with income originating from sources in Bulgaria. The incentive shall not apply to:

- the incomes from business activity as a merchant within the meaning of the Commercial Act, including as a sole proprietor, as well as for natural persons registered as agricultural producers who form a taxable income under article 26 of the Personal Income Tax Act;

- foreign individuals, where the income falls within the scope of the income taxed with final tax in accordance with the procedure of Article 37(1) of the PIT Act, namely:

1. compensation for loss of profit and indemnities of that nature;

2. scholarships awarded for training within the country and abroad;

3. interest, incl. ones contained in the leasing instalments, except for interests under bonds or other debt securities issued by the state or the municipalities and listed on a regulated market in the country, or in a European Union member state, or in another state which is a party to the Agreement on the European Economic Area;;

4. the income originating from rent or any other granting of the use of movable or immovable property, including the instalments under a lease contract which does not explicitly provide for the transfer of the ownership of property;

5. remuneration under franchising contracts and factoring contracts;

6. author's and licence remuneration;

7. remuneration for technical services;

8. prizes and remuneration for activity carried out inside the territory of the country by foreign natural persons – public figures, scientific workers, eminent figures in arts, culture and sports, including those cases in which the income has been due or paid through a third person, such as an impresario agency, producer's firm or another intermediary;

9. income originating from management and supervision of establishments, and from the participation in management and supervisory bodies of establishments;

10. income originating from sale, exchange or any other transfer of immovable property for consideration;

11. instalments under a lease contract which explicitly provides for the transfer of ownership of an immovable property;

12. income originating from the sale or exchange or any other transfer for consideration of stocks, shares, compensatory instruments, investment bonds and other financial assets, with the exception of the income originating from the exchange referred to in Article 38(5) of the Personal Income Tax Act.

The income listed above is subject to final tax, where it has been accrued / paid in favour of foreign individuals and has not been realised from a certain base in Bulgaria. In these cases the taxation with final tax is applied regardless of whether the income falls within the hypotheses in which it is considered non-taxable. No final tax is due on the income listed

above when it is exempt under Article 13 and accrued / paid in favour of foreign natural persons that are established for tax purposes in a Member State of the European Union, or in a State which is a Contracting Party to the Agreement on the European Economic Area. These circumstances are evidenced to the payer of the income by way of a document, issued by the tax administration of the State in which the person is established for tax purposes, and a declaration of the recipient of the income stating the existence of the circumstances for tax exemption pursuant to the tax law. These foreign natural persons have the right to choose to recalculate the final tax under article 37 of the Personal Income Tax Act, with the recalculation being carried out under the procedure of article 37a of the Personal Income Tax Act, for all incomes acquired by the person in the year and subject to final tax under article 37 of the Personal Income Tax Act.

## Tax relief

### Exemption from taxation of some income originating from employment relationships

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 24(2) and (4) of the Personal Income Tax Act.

**Substance of the Tax Relief**

The taxable income originating from employment relationships shall not include:

1. the amount of:

a) free food and/or food additives provided in kind under Article 285 of the Labour Code;

b) free detoxifying food and detoxicants provided in kind in accordance with procedures set forth in other laws;

c) free food provided in kind to: members of ship crews – for the days the ship is in operation; fishermen – for the days of fishing; divers – for the days of diving; the personnel on 12 hours' duty in medical treatment establishments; the surgery teams; the first-aid teams; and the blood donation teams;

d) free food provided to military and civil servicemen in accordance with Article 224(1), item 3 and Article 286(1), items 1 of the Defence and Armed Forces of the Republic of Bulgaria Act, Article 67 of the National Security Service Act, as well as to servicemen in accordance with Article 74(2), item 1 of the State Agency for National Security Act;

e) food allowance money paid on the grounds of the Civil Aviation Act, the Enforcement of Sanctions and Detentions Act, the State Agency for National Security Act, the Defence and Armed Forces of the Republic of Bulgaria Act, as well as the amounts referred to in Article 181 (1) of the Ministry of the Interior Act;

f) the food vouchers received in accordance with the procedure set forth in the Corporate Income Tax Act;

2. the value of the special work clothes and the personal means of protection provided in kind and in accordance with the conditions and procedure set forth in a statutory instrument;

3. the value of the work clothes, uniforms and formal dress clothes provided in kind and in accordance with the conditions and procedure set forth in a statutory instrument;

4. the chattels and accoutrements provided on the grounds of the Ministry of the Interior Act, the Defence and Armed Forces of the Republic of Bulgaria Act, the National Security Service Act and the State Agency for National Security Act.

5. the amount of:

a) travel and accommodation allowances for a business trip, evidenced by way of documents in accordance with the extant legislation;

b) daily allowances for a business trip, not exceeding the double amount specified in a statutory instrument.

6. the additional expenses on food specified in a statutory instrument that are paid instead of daily allowances to the employees working in the bus and railway transport, dining-cars, travelling post-offices, as well as to travelling security guards, and for other similar activities in which the official duties are performed in the course of travelling to another settlement or another site – not exceeding the double amount of the minimum amounts of additional expenses, specified in a statutory instrument;

7. the compensatory amounts referred to in Article 226c(1) and Article 298a of the Defence and Armed Forces of the Republic of Bulgaria Act, those referred to in Article 186 of the Ministry of Interior Act, as well as those referred to in Article 81 of the State Agency for National Security Act;

8. the indemnities referred to in Article 200, Article 216(1), item 1 and 2, (2) and (3), Article 222(2) and (3), and Article 226(3) of the Labour Code, the indemnities referred to in Articles 227, 229 and 232 of the Defence and Armed Forces of the Republic of Bulgaria Act, those referred to in Article 67(2) and (3), Article 121 and Article 124 of the National Security Service Act, those referred to in Article 234(1)-(7) and Article 236 of the Ministry of

Interior Act, those referred to in Article 74(4) and Article 117 of the State Agency for National Security Act, those referred to in Article 225, Article 277(3) and Article 354 of the Judiciary Act, as well as the indemnities referred to in Article 78, Article 81b(4), Article 82(5), Article 85(5), Article 104(3) and (4), and Article 106(3) of the Civil Servant Act;

9. the social expenses at the account of the employer which are subject to taxation in accordance with the procedure set forth in the Corporate Income Taxation Act, as well as the expenses on transport from the employee's place of residence to the place of work at the account of the employer which are not subject to taxation under the Corporate Income Taxation Act;

10. the one-off aid for medical treatment provided by the employer at the expense of the social expenses – up to the amount due for the medical treatment;

11. the amount of the one-off aid provided by the employer at the account of the social expenses in the following cases: delivery of a child, conclusion of a civil marriage, death of a member of the family – the total amount thereof not exceeding BGN 2,400;

12. the expenses made by the employer up to BGN 60 per month per each insured person for contributions/premiums for additional voluntary insurance, voluntary health insurance and/or life insurance reported by the establishments and commercial representative offices, regardless to whether the latter carry out business activities or not;

13. the expenses the employer has made for the insurance that a statutory instrument has set out as being mandatory insurance;

14. the indemnities and aids under Part One of the Social Insurance Code, including these paid on the grounds of Article 40(5) of the same Code;

15. the pecuniary and non-pecuniary awards granted on the grounds and in accordance with the procedure set forth in a statutory instrument;

16. the funds referred to in Article 226h and Article 298a of the Defence and Armed Forces of the Republic of Bulgaria Act, the pecuniary aid referred to in Article 69(1) of the National Security Service Act, in Article 182(1) of the Ministry of Interior Act and in Article 76(1) of the State Agency for National Security Act;

17. the funds and pecuniary aid referred to in Article 67(1)-(5), Article 69(1), Article 108 and Article 111(1) of the State Intelligence Agency Act;

18. the income in kind taxed under the procedure of Article 204(1), item 4 of the Corporate Income Tax Act, representing expenses in kind within the meaning of § 1, item 83 of

the Supplementary Provisions of the Corporate Income Tax Act under the conditions of that act.

**Objective of the Tax Relief**

The tax relief has a social objective.

**Beneficiaries of the Relief**

Individuals receiving income from employment relationships.

“Employment relationships” in the meaning of § 1, item 26 of the Additional Provisions of the Personal Income Tax Act shall denote:

a) legal relationships with employees under the Labour Code;

b) legal relationships with civil servants, as well as legal relationships between the Minister of Defence and the Minister of Interior or officials authorised by the respective Minister, on the one part, and the employees in the respective Ministries, on the other part;

c) the legal relationships with the members of the Supreme Judicial Council, the Chief Inspector and the Inspectors with the Inspectorate with the Supreme Judicial Council, the judges, public prosecutors, investigators, administrative managers and the deputies thereof in the judiciary bodies, State executive magistrates, the entry judges and the court employees under the Judiciary Act, including with candidates for junior judges and junior prosecutors in relation to the receipt of remuneration for the period of their training, as well as the relationships under the Constitutional Court Act;

d) the legal relationships between the Bulgarian Orthodox Church or any other religious denomination registered under the Religious Denominations Act, on the one part, and those of its employees who have an ecclesiastical rank, on the other part;

e) the legal relationships with persons receiving income originating from offices which are elective by virtue of law;

f) the legal relationships connected with the employing of workforce on the part of a foreign person, where the work is done in the territory of the country, as well as the legal relationships connected with the employing of workforce of a local individual by a foreign person, where the work is done outside the territory of Bulgaria;

g) the legal relationships between an employer and a Bulgarian or foreign individual, where these legal relationships are established by a contract for provision of staff, concluded between the employer and a third party;

h) the legal relationships under contracts for management and control, including with the members of management and supervisory bodies of enterprises;

i) the legal relationships, regardless of the grounds for their origination, with partners and members of a cooperative society, as well as with shareholders, holding over 5 percent of the capital of the shareholding company, for providing personal labour in the companies or cooperative societies, in which they are partners, members or shareholders apart from the cases under Article 37(1) of the Personal Income Tax Act.

## Tax relief

### Tax Relief for Children

**Legal framework of the Tax Relief**

The tax relief is regulated in article 22c of the Taxes on the Income of Natural Persons Act.

**Essence of the Tax Relief**

The tax relief is a reduction of the amount of the annual tax bases for the incomes from labour relationships, business activity, rent, assignment of rights or property and from other sources by BGN 200 for one child under 18 years old, BGN 400 for two children under 18 years old and BGN 600 for three and more children under 18 years old.

**Objective of the Tax Relief**

The objective of the tax relief is to provide financial incentives on the part of the state for support of the upbringing of children in Bulgaria. The actual available income of families with children aged under 18 is increased.

**Conditions for using the Tax Relief**

1. In order to use the tax relief the following conditions must be cumulatively present with respect to the child for whom the relief is used:

1.1 the child must have not have attained full age (the tax relief is used also for the years, in which the child is born and attained full age);

1.2. As at 31 December of the tax year, the child must:

- be a resident of the European Union member state or of another state which is a party to the Agreement on the European Economic Area and
- must have not been accommodated for upbringing entirely on account of the state in a specialised child facility.

2. The tax relief can be used provided that the taxable person does not have any

coercively enforceable public liabilities as of the date of the submission of the annual tax return.

**Procedure for Using the Tax Relief**

The tax relief is used by the filing of an annual tax return; the latter is to be accompanied by a written declaration in a standard form from the other parent (respectively the other foster parent, kinsman or relative) that he/she will not use this tax relief for the respective tax year..

Declaration shall not be required and filed when the other parent/foster parent/kinsman or relative is unknown, deceased, deprived of parental rights or parental rights have not been awarded to him/her in cases of a divorce, as well as when he/she has not received incomes as a sole owner or incomes subject to taxation on the annual tax base.

Such declaration shall not be attached to the annual tax return where it has been presented to the employer under the principal employment relationship and the relief has been enjoyed in full according to the respective procedure.

**Beneficiaries of the Relief**

The tax relief may be used by local and foreign natural persons established for tax purposes in a European Union member-state or in another state which is a party to the Agreement on the European Economic Area and which persons are as at 31 December of the tax year:

- a parent not deprived of parental rights, and subject to certain conditions;
- a custodian or a guardian;
- a member of the families of kinsmen or relatives – when the child is placed for no less than 6 months with kinsmen or relatives within the meaning of the Protection of the Child Act, or
- a foster parent – in the cases of long-term placement of the child for upbringing in a foster family within the meaning of the Protection of the Child Act.

The tax relief for children is only used by one of the persons set out above, who shall enclose to his/her annual tax return a written declaration under a form from the other parent, respectively from the other foster parent, kinsman or relative that he/she will not use this relief for the respective tax year.

The tax relief may also be used by a parent who has not been awarded the exercising of the parental rights in cases of a divorce, subject to the general conditions of the incentive

and submission of a written declaration under a form from the other parent that he/she will not use this relief for the respective tax year.

The circumstances and conditions for use of the relief are to be declared by a declaration under a form. When the tax relief is used by a foreign natural person – resident of a European Union member state or of another state which is a party to the Agreement on the European Economic Area, copies of the respective official documents evidencing the presence of the conditions for the use of the tax relief, as well as their translation in Bulgarian made by a sworn translator, shall also be enclosed.

## Tax relief

### Tax Relief for Children with Disabilities

**Legal framework of the Tax Relief**

The tax relief is regulated in article 22d of the Taxes on the Income of Natural Persons Act.

**Essence of the Tax Relief**

The tax relief is a reduction of the amount of the annual tax bases for the incomes from labour relationships, business activity, rent, assignment of rights or property and from other sources by BGN 2000 with respect to parents upbringing a child with 50 and more than 50 per cent disability, as established by a legally effective decision of a competent body.

**Objective of the Tax Relief**

The tax relief for children with a certain degree of disability has a purely social objective – to assist families and other persons upbringing a child with 50 and more than 50 per cent disability, in view of the need of larger financial costs.

**Conditions for using the Tax Relief**

The conditions for using the tax relief are identical to those applicable to the relief for children.

1. In order to use the tax relief the following conditions must be cumulatively present with respect to the child for whom the relief is used:

1.1. as of 1 January of the tax year the child must have not have attained full age (the tax relief is used also for the year, in which the type and degree of disability are established, as well as for the year of validity of the decision).

1.2. as at 31 December of the tax year, the child must:

- be a resident of the European Union member state or of another state which is a party to the Agreement on the European Economic Area and
- must have not been accommodated for upbringing entirely on account of the state in a specialised child facility.

2. The tax relief can be used provided that the taxable person does not have any coercively enforceable public liabilities as of the date of the submission of the annual tax return.

**Procedure for Using the Tax Relief**

Similarly to the relief for children, the one for children with disabilities is used subject to a filed annual tax return on the express condition that only one person uses the incentive – a circumstance that is declared by a declaration under a form by the other parent (respectively, the other foster parent, kinsman or relative) that he/she will not use this tax relief for the same tax year. The declaration must be enclosed to the annual tax return of the person who will use the relief.

Declaration shall not be required and filed when the other parent/foster parent/kinsman or relative is unknown, deceased, deprived of parental rights or parental rights have not been awarded to him/her in cases of a divorce, as well as when he/she has not received incomes as a sole owner or incomes subject to tax on the annual tax base. The circumstances and conditions for use of the relief are to be declared by a declaration under a form. A precondition is also to enclose a copy of a legally effective decision of a Territorial Expert Commission on Disability/National Medical Expert Commission (TMEC/NMEC).

Where a declaration in a standard form from the other parent and a copy of the decision of TMEC/NMEC have been presented to the employer under the principal employment relationship and the relief has been enjoyed in full according to the respective procedure, these documents shall not be attached to the annual tax return.

When the tax relief is used by a foreign natural person – resident of a European Union member state or of another state which is a party to the Agreement on the European Economic Area, copies of the respective official documents evidencing the presence of the conditions for the use of the tax relief, as well as their translation in Bulgarian made by a sworn translator, shall also be enclosed.

**Beneficiaries of the Relief**

The tax relief may be used by local and foreign natural persons established for tax purposes in a European Union member state or in another state which is a party to the

Agreement on the European Economic Area and which persons are as 31 December of the tax year:

- a parent of a child with 50 and more than 50 per cent and degree of disability, who is not deprived of parental rights and subject to certain conditions;
- a guardian or a custodian of a child with 50 and more than 50 per cent and degree of disability;
- a member of the families of kinsmen or relatives of a child with 50 and more than 50 per cent and degree of disability – when the child is placed for no less than 6 months with kinsmen or relatives within the meaning of the Protection of the Child Act, or
- a foster parent of a child with 50 and more than 50 per cent and degree of disability – in the cases of long-term placement of the child for upbringing in a foster family within the meaning of the Protection of the Child Act.

The tax relief for children with 50 and more than 50 per cent and degree of disability may also be used by a parent who has not been awarded the exercising of the parental rights in cases of a divorce, subject to the general conditions of the incentive and submission of a written declaration under a form from the other parent that he/she will not use this relief for the respective tax year.

## Tax relief

### Tax Relief for Non-Cash Payments Effected

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 22e of the Personal Income Tax Act.

**Substance of the Tax Concession**

The tax relief enables natural persons to reduce by 1 per cent, but by not more than BGN 500, the tax due for the year on the aggregate annual taxable amount for the non-cash payments effected by them.

**Objective of the Tax Relief**

The objective of the tax relief is to encourage natural persons to make non-cash instead of cash payments, which in turn will contribute to increasing the recording of the turnover of the traders where the expenses are made. Thus, it also becomes part of the measures to

combat the shadow economy.

**Conditions for using the Tax Relief**

The tax relief for non-cash payments effected can be used where the following conditions are simultaneously fulfilled:

1. during the year the person has acquired income subject to taxation on the annual taxable amount;

2. one hundred per cent of the cash income referred to in item 1 have been received by bank transfer;

3. the non-cash payments effected by the person amount to 80 per cent or more than 80 per cent of the income subject to taxation on the annual taxable amount.

**Procedure for Using the Tax Relief**

The tax relief for non-cash payments effected is used by filing the annual tax return on personal income tax at the NRA's office or territorial directorate as per the permanent address of the person. All circumstances related to the use of the relief should be declared in the tax return.

The tax relief can be used provided that the taxable person does not have any coercively enforceable public liabilities as of the date of the submission of the annual tax return.

**Beneficiaries of the Relief**

The tax relief can be used by natural persons for the non-cash payments effected during the year.

## Tax relief

### Reducing the amount of the annual tax bases by the amount of the pension social security contributions at the expense of the person, paid in during the year

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 20, Article 23(1), item 2, Article 28(2), item 3, Article 49(3), item 2 and (4), item 3 of the Personal Income Tax Act and Article 9a of the Social Insurance Code.

**Substance of the Tax Relief**

The tax relief consists in reducing the annual tax bases by the mandatory contributions for purchasing contributory length of service upon retirement.

Pursuant to the provision of Article 9a(1) of the Social Insurance Code (SIC), the duration of study of persons with higher or post-secondary non-tertiary education shall be recognised as contributory service for retirement purposes, if the persons pay, at their expense, insurance contributions calculated on the basis of the minimum insurance income for self-insured persons, as applicable on the contribution payment date, laid down by the Public Social Insurance Budget Act. The contributory service shall be recognised for the period covered by the insurance contributions paid, but for no longer than the duration of study stipulated by the curriculum of the major pursued. When insurance contributions under paragraph 1 have been paid for periods of education, shorter than 5 years, the person shall be entitled to pay insurance contributions in accordance with paragraph 2 for the difference of up to 5 years.

Pursuant to the provisions of Article 9a(2) of the SIC, the contributory service for retirement purposes shall also include the period for which persons, having reached the age under Article 68(1) but short of up to 5 years of contributory service to become eligible to receive the pension under Article 68(1), have paid insurance contributions calculated on the basis of the minimum insurance income for self-insured persons, as applicable on the contribution payment date, laid down by the Public Social Insurance Budget Act. The entitlement to the pension acquired through contributory service shall arise as of the payment date of the insurance contributions.

The insurance contributions shall be paid by a bank transfer. The insurance contributions under Article 68(1) and (2) of the SIC shall be paid entirely at the expense of the persons concerned, in the amount determined in respect of the Pensions Fund for persons born before 1 January 1960 and applicable on the contribution payment date.

**Objective of the Tax Relief**

Social objective – for individuals, who are elderly, but lack the full contributory service to receive entitlement to pension.

**Conditions for Using the Tax Relief**

1. The tax relief is used with the submission of an annual tax return, to which copies of the documents, certifying the contributions paid, shall be enclosed.

2. The annual tax base for income from employment relationships shall be determined by the employer under the main employment relationship of the worker or employee, and shall be decreased by the personal insurance contributions made by the individual. In this case it is not necessary for all personal insurance contributions, made by the individual, to have been withheld by the employer at the time of paying the income from the employment relationship. In order to use the concession through the employer under the main employment

relationship, the individual shall submit to the latter copies of the documents, certifying the contributions made, between 30 November and 31 December of the tax year.

**Procedure for Using the Tax Relief**

The tax relief can be used provided that the taxable person does not have any coercively enforceable public liabilities as of the date of the submission of the annual tax return.

Where the documents, certifying the instalments made, have been presented to the employer under the principal employment relationship and the relief has been enjoyed in full according to the respective procedure, these documents shall not be attached to the annual tax return of the person.

**Beneficiaries of the Relief**

The tax relief can be used by resident and non-resident natural persons and sole proprietors.

## Tax relief

### Tax relief for donations

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 22, Article 23, item 4, Article 49(3), item 1 and (4), item 5, and § 1, items 24 and 25 of the Personal Income Tax Act.

**Substance of the Tax Relief**

The tax relief consists in reducing the annual tax bases for income from employment, other business activities, rent or other granting of rights and property for use against remuneration, or income from other sources, with the donations made during the year, as follows:

**1. Up to 5 per cent where the donation is in favour of:**

a) healthcare establishments under Article 21(2), items 1 - 3 of the Health Act;

b) medical treatment establishments ;

c) specialised institutions for the provision of social services under the Social Support Act, and the Social Assistance Agency, and the Social Support Fund with the Minister of Labour and Social Policy;

d) specialised institutions for children under the Child Protection Act, and public

establishments for raising children who are deprived of parental care;

e) public nurseries, kindergartens, schools, higher schools and academies;

f) budgetary organisations within the meaning of the Accountancy Act;

g) religious denominations registered within the country;

h) specialised enterprises or cooperative societies of people with disabilities, which are entered in the Register referred to in Article 29 of the Integration of People with Disabilities Act, and in favour of the Agency for People with Disabilities;

i) the Bulgarian Red Cross;

j) cultural institutions, community centres, or for the purpose of cultural, educational or scientific exchange under an international treaty, to which Bulgaria is a party;

k) not-for-profit legal entities registered in the Central Register of not-for-profit legal entities for the purpose of carrying out activities for the public benefit, with the exception of those organisations which support culture within the meaning of the Patronage Act;

l) “Energy Efficiency and Renewable Sources” Fund;

m) communes for treatment of drug addicts;

n) the children’s fund of the United Nations (UNICEF).

**2. Up to 15 per cent for donations for culture;**

**3. Up to 50 per cent, where the donation is in favour of the “Fund for Treatment of Children” Centre and/or the “**Assisted Reproduction**” Centre.**

The tax relief for donations can also be used for donations, made in favour of persons, identical or similar to these above, established in another European Union Member State, or a country, which is a party to the Agreement on the European Economic Area.

**Objective of the Tax Relief**

The objective of the tax relief is to encourage individuals to make donations in favour of certain institutions and organisations.

**Conditions for Using the Tax Relief**

The total amount of the tax relief cannot exceed 65 per cent of the sum total of the annual tax bases.

The tax reliefs shall be applied only to donations made during the corresponding tax year.

For donations in kind it is assumed that the amount of the donation corresponds to the acquisition price, if the acquisition were made within up to three months from the date of the donation. In the remaining cases it is assumed that the amount of the donation is the market price as at the date of the donation.

The tax relief can be used provided that the taxable person does not have any coercively enforceable public liabilities as of the date of the submission of the annual tax return.

**Procedure for Using the Tax Relief**

The tax relief is used with the submission of the annual tax return, to which copies of the documents, certifying that the beneficiary of the donation corresponds to the conditions of the law and that the subject of the donation has been received, shall be enclosed. Where the donation is in favour of a person, established in another European Union Member State or a member state of the Agreement on the European Economic Area, an official legalised document certifying the status of the beneficiary of the donation, issued or certified by a competent authority of the corresponding foreign country and translated into the Bulgarian language by a sworn translator shall be enclosed.

The annual tax base for income from employment relationships shall be determined by the employer under the main employment relationship of the worker or employee, and shall be decreased by the donations made by the individual, provided that the amounts have been withheld at the time of payment of the employment remuneration and provided that the worker or employee submits between 30 November and 31 December of the tax year copies of documents, certifying that the beneficiary of the donation corresponds to the conditions of the law and that the subject of the donation has been received.

Where the documents, certifying that the beneficiary meets the legal requirements and the subject of the donation has been received, have been presented to the employer under the principal employment relationship and the relief has been enjoyed in full, these documents shall not be attached to the annual tax return of the person.

**Beneficiaries of the Relief**

The tax relief can be used by resident and non-resident natural persons.

### Tax relief

Reducing the aggregate of the annual tax bases of individuals, whose capacity to work is reduced by 50 and over 50 per cent

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 18(1) and (2), Article 23(1), item 1, Article 28(2), item 2, Article 42(3), item 1, Article 49(3), item 2 and (4), item 1, § 49 and § 10a of the TFP of the Personal Income Tax Act.

**Substance of the Tax Relief**

The tax relief consists in reducing the annual tax bases by the amount of up to BGN 7,920 for individuals, whose capacity to work is reduced by 50 and over 50 per cent, as determined by way of an effective decision of a competent body.

The monthly tax base for the withholding of advance tax on income from employment relationships of individuals, whose capacity to work is reduced by 50 and over 50 per cent, shall be reduced by BGN 660.

Individuals, whose capacity to work is reduced by 50 and over 50 per cent, shall owe advance tax on income from other business activities, rent or other granting of rights and property for use against remuneration, after the taxable income of the individual from all sources of income, acquired since the beginning of the tax year and subject to taxation on the total annual tax base, minus the withheld or paid at the expense of the individual mandatory insurance contributions, exceeds BGN 7,920.

**Objective of the Tax Relief**

The tax relief has a social objective.

**Conditions for Using the Tax Relief**

The tax relief is used with the submission of an annual tax return, to which a copy of a valid decision of a Territorial Medical Expert Commission (TMEC) / National Medical Expert Commission (NMEC) shall be enclosed.

When the employer under the main employment relationship of the worker or employee determines the annual tax base for income from employment relationships, provided that between 30 November and 31 December of the tax year a copy of a valid decision of TMEC / NMEC is provided.

In order to use the incentive at the time of withholding advance tax on income from other business activities, rent or other granting of rights and property for use against remuneration, the individual receiving the income shall certify the degree of reduced capacity to work with an expert decision of TMEC / NMEC, valid as at the date/s, on which the income has been paid, which decision has to be submitted once to the payer of the income, where the

latter is obliged to withhold and pay in the tax.

The tax relief is used for the tax year when the incapacity to work occurs and for the tax year, in which the period of validity of the decision of TMEC / NMEC expires.

**Beneficiaries of the Relief**

The tax relief can be used by resident and non-resident natural persons and sole proprietors provided that the taxable person does not have any coercively enforceable public liabilities as of the date of the submission of the annual tax return.

## Tax relief

### Reducing the amount of the annual tax bases with the personal contributions made for voluntary insurance and health insurance

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 19(1), (2), (3) and (4), Article 23(1), item 2, Article 28(2), item 1, Article 42(3), item 2, Article 49(3), item 1, and (4), item 2, § 1, items 12, 13 and 14 of the Additional Provisions of the Personal Income Tax Act.

**Substance of the Tax Relief**

The tax relief consists in a reduction of the annual tax bases by:

- up to 10 per cent for personal contributions for additional voluntary insurance, and

- up to 10 per cent for personal contributions for additional health insurance and instalments under Life insurance contracts.

**Objective of the Tax Relief**

The objective of the tax relief is to encourage the aptitude of individuals to make savings in order to increase their incomes after retirement.

**Conditions for Using the Tax Relief**

The tax relief is used with the submission of an annual tax return.

When the annual tax base for income from employment relationships is determined, provided that the amounts are withheld by the employer under the main employment relationship of the worker or employee and provided that between 30 November and 31 December of the tax year a copy of the contract with the insurance or social security company is provided.

**Beneficiaries of the Relief**

The tax relief can be used by resident and non-resident natural persons and sole proprietors.

## Tax relief

### Tax relief for young families

**Legal Regulation of the Tax Relief**

The tax relief is regulated in Article 22a of the Personal Income Tax Act.

**Substance of the Tax Relief**

The tax relief for young families provides an opportunity for deducting from the annual tax bases the interest payments on the first BGN 100,000 of a mortgage on a residential property.

The tax relief can be applied to loans in the amount lower or higher than BGN 100,000. When the loan is lower than BGN 100,000, the amount of the tax relief is equal to the interest payments executed during the year in connection with this loan. When the loan is higher than BGN 100,000, the amount of the tax relief is equal to the interest payments executed during the year in connection with the first BGN 100,000 of this loan. Where the mortgage is in a foreign currency, the amount of the tax concession is restated in Bulgarian Levs using the exchange rate of the Bulgarian National Bank for the dates of execution of the corresponding interest payments.

**Objective of the Tax Relief**

The objective of the tax relief is to encourage young families, which do not have their own home, i.e. there is a social objective, and in this way the investments in the economy and the development of the banking sector are indirectly promoted.

**Conditions for Using the Tax Relief**

The relief can be used if the following conditions are simultaneously met:

1. The mortgage contract is concluded with a person, who has a civil marriage.

The civil marriage must have been concluded prior to the conclusion of the mortgage contract and shall not have been terminated as at 31 December of the year, for which the tax concession for young families is used. The condition will not be met if the mortgage contract has been concluded prior to the conclusion of civil marriage or if the marriage is terminated by way

of divorce, death of one of the spouses or nullity as at 31 December of the corresponding tax year. The tax relief for young families cannot be used, where the mortgage contract has been concluded by another person (for example, a parent or another relative) and not by the taxable person and/or his/her wife/husband, with whom they are in a civil marriage.

2. The taxable person and/or his/her wife/husband have not reached the age of 35 as at the date of conclusion of the mortgage contract.

The condition is that as at the date of conclusion of the mortgage contract at least one of the two spouses shall not have reached the age of 35. Therefore the age of the other spouse at the time when the concession is used is immaterial for the purposes of the tax relief. There is no obstacle for the spouse, who has reached the age of 35 as at the time of conclusion of the mortgage contract, to use the relief, if the other spouse satisfies the condition of the PIT Act to be younger than 35.

3. The mortgaged property is the only home of the family during the tax year.

The tax relief for young families cannot be used, if another residential property, and not the property purchased with the mortgage, is used as security. The relief is applicable only to young families, which have only one home, for the purchase of which they have taken a mortgage. That is why it cannot be used where the family has another residential property or a share of such property, and vice versa, it can be used where the family owns other real estates, which are not residential – fields, forests, meadows, etc.

4. The individual shall submit a declaration in writing by his/her spouse that the latter will not use the tax relief for the corresponding year (this requirement is effective as from 1 January 2010).

5. The tax relief can be used provided that the person does not have any coercively enforceable public liabilities as of the date of the submission of the annual tax return.

**Procedure for Using the Tax Relief**

The relief is used by submitting an annual tax return for taxation of the income of individuals in the office or the territorial directorate of the NRA by permanent address. With the return it is mandatory to enclose a document, issued by the lending bank and certifying the amount of the interest payments executed during the year in connection with the first BGN 100,000 of the principal of the mortgage for acquisition of residential property. When the bank-lender is established for tax purposes in a European Union member state or in another state which is a party to the Agreement on the European Economic Area, the document should be accompanied by a legalized translation in Bulgarian made by a sworn translator. The conditions and circumstances, regulated in the PIT Act for using the tax relief (concluded

civil marriage, at least one of the spouses not having reached the age of 35, the mortgaged residential property being the only residential property of the family) are also declared by the individual in the annual tax return.

The tax relief for young families can be used only when the annual tax return is submitted. This also applies to individuals who have only income from employment relationships and are not obliged to submit tax returns.

The NRA officials check the data in the return and the documents enclosed with it. If as a result of using the relief there is overpaid income tax, it is refunded to the taxable person within 30 days of the submission of the return or is offset against overdue public liabilities of the person to the state.

**Beneficiaries of the Relief**

The tax relief for young families can be used only by local individuals, who have concluded a civil marriage and have purchased a residential property with a mortgage as well as by non-resident natural persons established for tax purposes in a Member State of the European Union or in another State which is a Contracting Party to the Agreement on the European Economic Area. The tax relief can be used only when the annual tax base is formed for income, received in the capacity of an individual, and cannot be used in the forming of the annual tax base for income from business activities in the capacity of a sole proprietor.

## VI. NATIONAL PREFERENTIAL TAX REGIMES

In the national tax legislation several preferential tax regimes are regulated aiming at reducing the administrative burden for taxpayers, as well as taking into account the specific nature of certain sectors, activities or taxpayers.

### Tax on the receipts of budgetary organisations

**Legal Regulation of the Preferential Tax Regime**

The tax regime is regulated in Chapter Thirty-Three of the Corporate Income Tax Act.

**Substance of the Preferential Tax Regime**

The receipts of the budgetary organisations from transactions referred to in Article 1 of the Commerce Act, and the receipts from leasing movable and immovable property, accrued

during the corresponding year, shall be taxed with a tax on receipts in the amount of 2 per cent for municipalities and 3 per cent for the remaining budgetary organisations.

**Beneficiaries of the Preferential Tax Regime**

The preferential tax regime can be used by budgetary organisations.

Within the meaning of §1, subparagraph 1 of the Additional Provisions of the Accounting Act "Budgetary Undertakings shall be all entities applying budgets, accounts for funds from the European Union and accounts for others' funds according to the Public Finance Act, including the National Social Security Institute, the National Health Insurance Fund, state higher education institutions, the Bulgarian Academy of Sciences, the Bulgarian National Television, the Bulgarian National Radio, the Bulgarian News Agency, as well as all other entities that are budgetary organizations within the meaning of § 1, subparagraph 5 of the Public Finance Act".

## Tax on the activity of operation of vessels

**Legal Regulation of the Preferential Tax Regime**

The tax regime is regulated in Articles 254-260 of the Corporate Income Tax Act.

**Substance of the Preferential Tax Regime**

Persons performing maritime commercial navigation are entitled to choose that their activity of operation of vessels be taxed with a tax on the activity of operation of vessels instead of with corporate tax and those which have chosen to be taxed with a tax on the activity of operation of vessels shall be liable for the said tax for a period not exceeding five years.

In the meaning of § 1, item 41 of the Additional Provisions of the Corporate Income Tax Act, "Activities of operation of vessels" shall denote:

a) carriage by sea with vessels the net tonnage of which is over 100 tons, the chartering thereof, as well as the sale of those vessels forming objects of tonnage taxation which were acquired earlier than 5 years prior to their being sold;

b) land carriage connected with carriage by sea, administrative and insurance services and other services provided to clients in connection with carriage by sea;

c) financial operations and exchange rate differences relating to the management of floating capital used in the operation of vessels;

d) unscheduled activities connected with the operation of vessels, the said activities not falling within the scope of items "a" through "c" and the turnover thereof not exceeding 0.25

percent of the turnover of the activities under items “a” and “b”.

e) activities related to the operation of ships on the grounds of management contracts pursuant to Article 225a, items 1 - 7, 9 and 10 of the Commercial Navigation Act.

**Conditions for Using the Tax Regime**

The tax regime can be used by entities engaged in maritime commercial shipping, where they meet the following conditions.

1. they are companies registered under the Commercial Law or business activity establishments of a company located for tax purposes either in another Member State of the European Community or in a Member State of the European Economic Area, and are not regarded as located in another State outside the European Community or the European Economic Area under the respective tax legislation or under a convention for the avoidance of double taxation with a third State;

2. they operate vessels of their own or chartered ones, and charter vessels;

3. they do not refuse to train probationers on board, with the exception of those cases in which the number of probationers within a year is more than one per 15 officers on board;

4. their crews are recruited from Bulgarian citizens or citizens of other Member States of the European Community or the European Economic Area;

5. at least 60 per cent of the net tonnage of the operated vessels is of vessels flying the Bulgarian flag or the flag of another Member State of the European Community or the European Economic Area.

6. they perform their operations in accordance with the requirements of international conventions and the European Union legislation on safety and security of navigation, environmental protection from pollution by ships, and the living and working conditions on board of the ship.

The tax regime can also be used by persons performing maritime commercial navigation, where they operate ships on the grounds of management contracts and satisfy the following requirements:

1. the requirements specified in items 1, 5 and 6 above are fulfilled with regard to them;

2. over half of the administrative on-shore staff and the crew comprises Bulgarian citizens or citizens of other Member States of the European Community or the European Economic Area;

3. at least two-thirds of the tonnage of the operated vessels are operated by companies, which are local persons for tax purposes of a Member State of the European Community or the European Economic Area.

This tax regime shall not be applied with regard to:

1. sea vessels the net tonnage of which is below 100 tons;

2. fishing vessels;

3. vessels for trips, with the exception of passenger ships;

4. vessels which the taxable persons have granted under management contracts or under bare-boat charters, except for the cases in which the vessels are granted to the State;

5. installations for extraction of ores and minerals, oil platforms, dredgers and vessels performing towage.

**Beneficiaries of the Preferential Tax Regime**

The tax regime can be used by entities engaged in maritime commercial shipping and satisfying the statutory requirements.

## Special procedure for forming the tax base for taxation of income received by seafarers

**Legal Regulation of the Preferential Tax Regime**

The tax regime is regulated in Article 25(3) and Article 42(4) of the Personal Income Tax Act.

**Substance of the Preferential Tax Regime**

The tax regime consists in a special procedure for forming the annual tax base. Pursuant to the PIT Act, the annual tax base of the income received as a seafarer is 10 per cent of the annual tax base, determined in connection with the income from employment relationships in the other cases.

Where the payer of the income of a seafarer is an employer, he shall be obliged to accrue, withhold and pay in the tax due on income from employment relationships. Employers shall periodically provide information about the income paid under employment relationships and the tax withheld from this income. It is possible for the payer of the income not to have the capacity of an employer; this is the hypothesis of legal relationships of hiring workforce of a local natural person by a foreign person, where the work is done outside the territory of the

country. In this case the foreign person – payer of the income does not have the capacity of an employer, that is why the obligation to pay in tax is an obligation of the local natural person, receiving the income and having the capacity of a seafarer.

Another special feature compared to the general regime of taxation of income from employment relationships is that the amount of the advance tax, due during the year, is determined by multiplying the monthly tax base by a tax rate of 1 per cent, while the rate in the general regime is 10 per cent.

**Conditions for Using the Tax Regime**

The only condition is for the taxable person to be a "seafarer" pursuant to the definition in the Personal Income Tax Act.

**Beneficiaries of the Preferential Tax Regime**

The tax regime can be used only by taxable persons, who are seafarers in the meaning of § 1, item 54 of the Additional Provisions of the Personal Income Tax Act.

"Seafarer" shall mean a natural person, occupying a position under an employment legal relationship as a member of the crew of a sea ship, entered in the registers of the ships of a Member State of the European Union, regardless of whether this is on the shore or on board of the ship, holding a certificate of competence and certificate for additional and / or special training acquired in accordance with the procedure of the ordinance under Article 87(1) of the Commercial Navigation Code.

## Statutory recognised expenses

**Legal Regulation of the Preferential Tax Regime**

The tax regime is regulated in Article 29, Article 31(1) and Article 33(1) of the Personal Income Tax Act.

**Substance of the Preferential Tax Regime**

Statutory recognised expenses are introduced for income with different sources in the forming of the tax base on the aggregate annual tax base. Depending on the source of the income and the specifically determined amount, statutory recognised expenses can be grouped as follows:

- The taxable income from business activities of individuals, which are not vendors in the meaning of the Commerce Act, is determined by deducting from the income received the operating expenses, as follows:

- 60 per cent for income originating from the activity of individuals, registered as agricultural producers for the production of unmanufactured products from agriculture, except for the income from production of ornamental plants;

- 40 per cent for the income originating from the activity of individuals related to the production of processed or unprocessed products from agriculture (including from sale of ornamental plants), from forestry (including from collecting of wild herbs, mushrooms and fruit), hunting and fisheries;

- 40 per cent for author's and licence remuneration, including the income originating from the sale of inventions, works of science, culture and art by the authors thereof, as well as the performance of actors-performers;

- 40 per cent for income originating from practising a craft, which is not taxed with patent tax in accordance with the procedure of the Local Taxes and Fees Act;

- 25 per cent for the income originating from working as a freelance practitioner and for the income originating from legal relationships other than the employment ones.

- The taxable income originating from rent or any other granting of the use of movable or immovable property is determined by reducing the income received by 10 per cent expenses;
- The taxable income originating from sale or exchange immovable property for consideration, including limited real rights over such property, is determined by deducting 10 per cent expenses from the positive difference between the sale price and the acquisition price of the property.

**Objective of the Preferential Tax Regime**

The objective of the preferential tax regime is to facilitate to a large extent the taxable persons in the determining of the annual tax payable by them. The facilitation consists in the fact, that the Personal Income Tax Act does not require in connection with certain incomes the individuals to prove by way of documents the expenses incurred by them; instead, in the law, depending on the type of the activity carried out, expenses are fixed. In this way people are spared expenses on keeping accounts and the forming of the tax base and the taxing of their income is simplified. At the same time the costs of the administration are also decreased by not engaging administrative resources with checking the expenses and documents proving them.

**Beneficiaries of the Preferential Tax Regime**

The tax regime is used when the taxable income for the purposes of the annual and advance taxation of the corresponding type of income is determined, and the circle of the

people using this regime is linked to the type of the activity carried out, since the statutory recognised expenses are related to the activity – people working as freelance practitioners, actors-performers, agricultural producers, craftsmen, people letting out movable and immovable property, etc.

## CONCLUSION

Tax policy has a key importance for achieving the objectives of the government for promoting investments, innovations and new technologies, for enhancing energy efficiency and environmental protection, as well as for increasing employment and the development of the human potential of the nation. The effective and modern system of tax incentives can to a large extent support the successful implementation of the objectives and priorities of the Bulgarian government.

As a result of the overview of the extant system of tax incentives and preferential tax regimes the following main conclusions can be made and the following possibilities for its improvement can be outlined.

**CONCLUSIONS**

1. In the Value Added Tax Act and the Excise Duties and Tax Warehouses Act a few tax incentives are regulated. This is due to the fact that the two tax laws are fully harmonised with the legislation of the EU, which does not provide great opportunities to Member States for national tax incentives;

2. The tax incentives regulated in the Corporate Income Tax Act are targeted at promoting investments, innovations, employment, as well as increasing energy efficiency. The largest relative share belongs to the tax incentives aimed at attracting foreign direct investment. One tax incentive is envisaged for encouraging innovation and high technologies;

3. The tax incentives regulated in the Personal Income Tax Act have mainly social objectives.

**POSSIBILITIES FOR IMPROVING THE SYSTEM**

The extant system of tax incentives can be improved in the following directions:

1. Carrying out an analysis of the effectiveness of the extant tax incentives and reliefs;

2. Making an assessment of the degree of complexity of the provisions regulating the tax incentives and reliefs and their implementation in practice by taxpayers;

3. Replacing the ineffective tax incentives and reliefs with new and more effective tax incentives and reliefs for encouraging investments, research and development activities and energy efficiency;

4. Carrying out a preliminary cost-benefit analysis when new tax incentives and reliefs are introduced;

5. Defining clear and understandable for taxpayers provisions regulating the tax incentives and reliefs, when new tax incentives and reliefs are introduced;

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**For additional information, please contact:**

Lyudmila Petkova

Director of Tax Policy Directorate

Ministry of Finance

E-mail: l.petkova@minfin.bg