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Recent Developments in International Taxation

Republic of Bulgaria

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Republic of Bulgaria joined the European Union (EU) on 1 January 2007 since when the European tax legislation applies directly in the country.

I. Direct taxes

In Bulgaria subject to corporate taxation are: the Bulgarian resident companies; the branches of foreign companies and the Bulgarian non-residents, whereas the latter are subject to withholding taxation. The corporate tax rate is 10%. Direct taxes are also tax in place of corporate tax which applies for state budget-funded enterprises; gambling operators and merchant shipping operators as well as the tax over social expenses, business-related expenses and vehicle use-related costs for management purposes.

The direct taxes are regulated by Corporate Income Tax Act (ZKPO) whereas the most significant amendments entering into force as from 01 January 2015 are as follows:

- ✓ **FULLY IMPLEMENTATION OF THE EU INTEREST AND ROYALTIES DIRECTIVE.**

As from 1 January 2015 Republic of Bulgaria has implemented entirely the provisions given in Directive 2003/49/EC on a common system of taxation applicable to interest and royalty payments (referred hereinafter as "I+R Directive"). The said amendment appears to be the final of transitional periods provided by Council Directive 2004/76/EC. I+R Directive aims to eliminate withholding taxes in the area of cross-border interest and royalty payments within a group of companies by abolishing withholding taxes on **royalty** and **interest** payments arising in a Member State. These interest and royalty payments shall be exempt from any taxes in that State provided that the beneficial owner of the payment is a company or permanent establishment in another Member State and in case that the beneficial owner and the payer are related parties. The latter means that payments of interests and royalties shall be no longer subject to withholding taxes providing that certain requirements of the law are met. The benefits of the I+R Directive are only granted to companies which are subject to corporate tax in the EU, tax resident in an EU Member State and companies are type listed in the annex to ZKPO (Directive).

II. Personal Income Taxes.

Subject to personal income taxation are local individuals and foreign individuals for their income from sources in Bulgaria. The personal income tax is levied on **annual tax base** formed from remuneration, income from the independent economic activity and income from other sources. Final tax is levied on **exhaustively listed types of income of non-Bulgarian residents as well as** on limited in number types of income of local residents.

The most significant amendment in the matter entering into force as from 01 January 2015 concerns the **taxation of interests accrued under all types of bank accounts**.

- ✓ The new moment here is that subject of withholding taxation shall be interest accrued under all types of bank accounts (in contrast to previous years where subject of taxation was only interest accrued under deposits).

III. Value Added Tax (VAT).

The Bulgarian VAT legislation strictly follows the legislation of the EU, namely Directive 2006/112/EC. The VAT is levied on any goods or services provided, on intra-Community acquisitions with place of execution on the territory of Bulgaria, on import of goods from third countries and other types of deliveries listed in BG and EU legislation.

- ✓ **"Mini-One-Stop-Shop" (MOSS)**

Most significant in the VAT area is change in place of supply for telecommunications, broadcasting and electronic services. As from 1 January 2015 the "mini-One-Stop-Shop" (MOSS) comes into force and shall allow taxable persons providing telecommunications, broadcasting and electronic services to non-taxable persons in Member States in which they do not have an establishment to account for the VAT due on those supplies via a web-portal in the Member State in which they are identified.

This MOSS scheme is **optional.** MOSS allows taxable persons providing telecommunications, broadcasting and electronic services to avoid registration in each Member State of consumption. However, in choosing to use the MOSS scheme the taxable person must apply the scheme in all relevant Member States. **It is not an optional scheme on an individual MemberState basis.**

The telecommunications, broadcasting and electronic services shall be taxed in the country where the customer belongs regardless of whether the customer is a business or consumer and regardless of whether the supplier is based in the EU or outside. Therefore, it simplifies the process in that the supply takes place in the Member State of the customer, and not the Member State of the supplier.

The application of MOSS scheme in practice allows to registered in Member State taxable person (Member State of Identification) to submit electronically quarterly mini One Stop Shop VAT returns detailing supplies of telecommunications, broadcasting andelectronically supplied services to non-taxable persons in other Member States (the Member State(s) of consumption), along with the VAT due. These returns, along with the VAT paid, are then transmitted by the Member State of Identification to the corresponding MemberStates of consumption via a secure communications network.