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GES NewsFlash

Bulgaria — Changes in the personal income tax and social security



January 25, 2013

Summary

The Parliament has introduced changes in the personal income tax and social security of relevance to employers and their assignees. The key changes mentioned below are effective as of January 1, 2013.

Curtailment of the tax relief for interest income

Interest income received by tax residents of member states of the European Union or the European Economic Area (EU/EEA), including Bulgaria, from term deposits in Bulgarian banks as well as interest income received by Bulgarian tax residents from term deposits in EU/EEA banks will no longer be tax exempt.

Ten percent (10%) final tax will apply. When the payer is a Bulgarian bank, it will be obliged to withhold, pay, and report the tax on a monthly basis. When the payer is an EU/EEA bank, the Bulgarian tax resident individual will be personally responsible to pay and report the tax on quarterly basis as well as to disclose the income in the annual tax return.

Interest income from termless EU/EEA bank accounts remains nontaxable for individuals who are tax residents of an EU/EEA Member State (including Bulgaria).

Deloitte's view

Although the domestic rules envisage taxation of the said interest income, the Bulgarian tax due may be reduced or eliminated under an applicable double tax treaty. Upon interest, we could help you with the analysis of the tax implications and the paperwork involved.

Simplification of the rules for settlement of public liabilities

As of 2013, the taxpayers should be able to remit almost all payments for tax and social security liabilities to one bank account without stating payment code/reason, effectively using one payment order for several liabilities. They would not be able to choose which public liability to be settled, but instead the liability with the earliest payment deadline will be settled first.

Related simplifications include also:

- a reduction of the penalty interest for late payment of social security contributions from 20% to 10% per annum (plus base interest rate) – thus aligning the penalty interest due on all public liabilities; and

- new unified deadlines for payment of advance/final taxes and social security contributions (e.g., employers will have to remit the advance tax and social security contributions by the 25th of the month following the month of withholding the tax, respectively, of the month following the month in which the work has been performed).

Deloitte's view

Not all practical aspects of the changes are clear and it is recommendable that taxpayers verify their liabilities prior to making new payments to the revenue authorities. In addition, there may be technical issues in the early days of adopting the new payment system.

Otherwise, the new system should be beneficial for both taxpayers and administration in terms of reducing the number of payment orders needed, the bank fees involved, and the errors arising from the numerous bank accounts and payment codes used so far.

New quarterly tax filing for certain nonemployment income

Individuals may have quarterly tax filing obligation in Bulgaria if they receive in 2013 and onwards certain nonemployment income (e.g., interest, dividends, royalties, capital gains, rent, service fees, etc.) for which quarterly advance/final tax is due in Bulgaria by the recipient. Generally, if the payer is a Bulgarian enterprise, it should withhold the respective advance/final tax due and the individual would not have the said obligations.

So far, the individuals' filing obligation has been mainly annual.

A penalty for nonfiling or late filing of the quarterly tax return of up to BGN 500 may be imposed.

Deloitte's view

This measure would increase the administrative burden for both taxpayers and the revenue authorities.

We would recommend that the individuals check with the Bulgarian revenue authorities or their tax advisors whether they have quarterly tax filing obligation arising from nonemployment income.

Increase in the social security cap

The monthly earnings cap for social security purposes is raised from BGN 2,000 to BGN 2,200. Generally, the effect for an employee whose monthly gross remuneration is BGN 2,200 or more will be an increase in his/her contribution of approx. BGN 26 per month (a decrease in the net remuneration of approx. BGN 23), in the employer's contribution of approx. BGN 37 per month.

Deloitte's view

This measure would negatively affect the employers' costs and employees' net remuneration. The impact would be relatively small.

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