

**CHANGES TO THE CORPORATE INCOME TAX ACT
(IN FORCE AS OF 1 JANUARY 2013)**

The amendments to the Corporate Income Tax Act (CIT Act) were promulgated in State Gazette No. 94/30.11.2012. The amendments shall enter into force on 01.01.2013.

Some of the most important changes in the CIT Act are summarized below.

1. Changes to the Method of Calculating the Corporate Income Tax Advance Instalments

Following the legislative amendments there will be a major change in the manner in which the CIT advance instalments are determined. The main criterion for determining the type of CIT advance instalments will be the amount of the net sales for the previous year (under existing rules the type of the instalments depends on whether the person made a profit or a loss during the previous year).

The new rules could be summarized as follows:

Net sales for the previous year	CIT advance instalments
BGN 0 – BGN 300 000	no obligation to make advance instalments
BGN 300 000 – BGN 3 000 000	quarterly advance instalments
over BGN 3 000 000	monthly advance instalments

Further, the CIT advance instalments will be calculated based on the forecast tax profits for the current tax year.

(i) Exemption from Obligation to Make Advance Instalments

Persons whose net sales during the previous year did not exceed BGN 300 000 will be exempted from the obligation to calculate and pay advance instalments (prior to the amendments the threshold for advance instalments exemption was BGN 200 000).

Nevertheless, the taxable persons may chose at their discretion to make quarterly advance instalments under the general rules. In this case, however, no default interest will be levied if the annual CIT exceeds the advance instalments.

(ii) Monthly and Quarterly CIT Advance Instalments

The most important provisions concerning the new rules for determining and payment of the monthly and quarterly advance instalments are summarized in the table below:

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	Monthly advance instalments	Quarterly advance instalments
Formula for calculating the advance instalments	Monthly advance instalment = 1/12 of the forecast tax profits for the current year * 10%	Quarterly advance instalment = 1/4 of the forecast tax profits for the current year * 10%
Declaration of the advance instalments	In the annual corporate income tax return for the previous year	In the annual corporate income tax return for the previous year
Payment deadlines	January - March: by 15-th April of the current year April - December: by 15-th of the month for which the instalments are due	First and second quarter - by 15-th of the month following the quarter for which the instalments are due Third quarter - by 15-th December Fourth quarter - no advance instalments are due
Changes in the advance instalments (increase or decrease)	by filing a declaration	by filing a declaration
Default interest if annual corporate income tax exceeds the advance instalments	If the annual corporate income tax exceeds the monthly instalments by more than 20%, default interest is due on the excess over 20%.	If 75% of the annual corporate income tax exceed the quarterly instalments for the first, second and third quarter by more than 20%, default interest is due on the excess over 20%.

The monthly and quarterly CIT advance instalments for 2013 must be declared by the taxable persons in their annual CIT returns for 2012.

On a separate note we should also mention that tax losses will no longer be deducted when determining the quarterly advance instalments.

2. Transformation of the Tax on Expenses into an Annual Tax

Following the changes the tax on expenses, which is currently due on a monthly basis, will be transformed into an annual tax.

Thus, the taxable base of the tax will be formed by the expenses accrued for the respective tax year. The tax will be due by 31 March of the following year and any overpaid tax on expenses or CIT may be deducted from the tax on expenses for subsequent years.

3. Changes to Withholding Tax

(i) Time Limits for Payment of the Tax

The time limits for payment of withholding tax (WHT) have been changed.

So far the time limits ran from the beginning of the month following the month when the income was accrued and their duration depended on whether the beneficiary of the income was a tax resident in a state which is party to a Convention for the avoidance of the double taxation concluded with Bulgaria.

Following the changes the WHT will be payable by the end of the month following the quarter during which the resolution for dividends distribution has been taken or, respectively, during which the income was accrued.

Those changes may practically bring about shortening of the time limits for payment of WHT, especially in the cases where the income is accrued at the end of the quarter.

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(ii) WHT Declaration

According to the amendments the taxable persons will file a declaration for the due WHT and not for the already paid tax.

The persons liable to withhold and pay the tax would need to declare it by the end of the month following the relevant quarter, which practically coincides with the terms for payment of the tax. Before the amendments were adopted the time limits for declaring the already paid WHT lapsed at the end of the month following the quarter when the tax was paid.

Pursuant to the transitional provisions the persons who paid WHT during the fourth quarter of 2012 need to file a declaration for the paid tax according to the present rules in force until 31.12.2012. The new rules would apply as of 01.01.2013 to WHT which became due after 01.01.2013 and to taxes which became due until 31.12.2012 but were not paid until that date. The taxes which became due but remained unpaid until 31.12.2012 will be subject to declaration until 31.07.2013.

4. Other Changes**(i) Changes concerning Tax on Gambling**

With regard to the entry into force of a new Gambling Act on 01.07.2012 a number of changes were introduced in the CIT Act concerning the tax on gambling.

(ii) Expenses for Bribes

The expenses for bribing officials are expressly regulated as non-deductible expenses for tax purposes. The new provision is adopted as part of Bulgaria's compliance with international agreements obligations and we assume that it will not have any particular practical significance.

(iii) Correction of Accounting Errors

Pursuant to current rules when a taxable person detects an accounting mistake concerning previous years during the current tax year, he corrects the annual CIT for the current year with the difference between the tax liability prior to and after the correction of the accounting error.

Following the amendments the taxable persons would need to notify in writing the tax authorities and the latter would be the ones who would take the necessary measures for changing the tax financial result and the tax liability of the person for the respective tax period.

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