

# Tax & Legal Alert

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## International assignment solutions

Parliament passed the amendments in the Personal Income Tax Act, which reduce significantly the taxation of individuals.



## 10% flat tax for individuals

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### New flat tax

As of 1 January 2008 all employment income, regardless of the tax residency status of the recipient, is taxed with a flat tax of 10%. Employment income now includes also management fees paid to Bulgarian tax residents.

The same rate applies also on the following income - capital gains from disposal of real estate, income of free-lancers, service fees, rental income, royalties and licence fees.

### Lower advance tax on non-employment income of Bulgarian tax residents

The advance tax due on income of freelancers, services fees and rental income is reduced to 10% (15% in 2007).

### Lower taxation of dividend income and liquidation proceeds

Bulgarian-source dividend income and liquidation proceeds are taxed with a final 5% tax (7% in 2007). This rate applies to both Bulgarian and foreign tax residents.

The 5% tax rate also applies to foreign-source dividend income and liquidation proceeds received by Bulgarian tax residents (7% in 2007).

### Fewer tax allowances

The tax deductions for parents with children are abolished. Donations are recognised up to 5% of the tax base if made to specific organisations and legal entities listed in the law. The tax deductions for donations to individuals (e.g. disabled and socially disadvantaged people) are also cancelled.

The expenses recognised by statute for management income are also abolished. Up to now managers were allowed to reduce their taxable base by 10%.

The expenses for other types of income are reduced, i.e. tax payers are able to make deductions from their taxable base as follows:

- Income of freelancers and other non-employment income (e.g. service fees) – 25% (35% in 2007)
- Rental income – 10% (20% in 2007)
- Royalties and licence fees – 40% (50% in 2007).

The above tax deductions are applicable to the income of Bulgarian tax residents only.

#### Higher social security contributions. The burden shifts slightly to employees

The Bill on the 2008 National Insurance Budget also introduces important changes. The overall social security contribution remains in the 33.40% - 34.10% range. However, the minimum and maximum insurance base is increased:

- The minimum insurance base to BGN 220, and to BGN 240 for the self-insured (BGN 180 and 220 respectively in 2007).
- The maximum insurance base to BGN 2,000 (BGN 1,400 in 2007).

Compared to 2007, in 2008 employees cover a bigger part of the overall contribution. In 2006 and 2007 the contribution was split between employer and employee in a 65:35 ratio. In 2008 the ratio is 60:40 (employer:employee).

#### Higher daily business trip allowance

Following amendments in the Regulation for business trips in Bulgaria the amount of the daily allowance for employees who spend the night at the business trip location is increased to BGN 20. Up to now this amount was BGN 12.

Please address any queries for additional information or assistance to your usual PricewaterhouseCoopers contact or to Maria Toromanova.

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