

# Tax & Legal Alert

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## Direct taxes

### Amendments to CITA

Certain amendments to the Bulgarian Corporate Income Tax Act (CITA) entered into force as of 1 January 2008. The amendments do not introduce material changes in the Bulgarian corporate tax environment but they are rather aimed at clarifying the existing tax provisions and at implementing explicit rules in respect of some matters, which have not been specifically regulated until now.



## Summary of the main amendments to CITA

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### 5% withholding tax on dividends and liquidation quotas

The withholding tax rate on dividends and liquidation quotas payable to non-residents and individuals is reduced from 7% to 5% as of 1 January 2008.

### New rules for advance instalments of corporate income tax

Newly established companies as well as companies with net sales revenue for the previous year below BGN 200,000 are released from the obligation to make advance instalments of corporate income tax.

The monthly advance instalments for the first three months of the year shall be adjusted with the April instalment depending on the taxable profit for the previous year.

### Changes in the rules for tax depreciation

The period after whose expiry the depreciation of assets, which are not used, has to be stopped is increased from three to twelve months.

The threshold value of an asset to be considered as tax depreciable is increased from BGN 500 to BGN 700 (unless the threshold as per the accounting policy of the particular taxpayer is lower).

Further, the minimum period for tax depreciation of mobile phones for tax purposes is decreased to 2 years.

It is explicitly provided that all accounting depreciation costs shall be added back to the financial result for tax purposes regardless of the fact that some of them might have been capitalised in the value of an asset.

### Recognition of scrapping of assets for tax purposes

Scrapped assets shall be written-off from the tax depreciation plan of the company as of the beginning of the month, in which they are written-off from the accounting depreciation plan. Thus the creation of a temporary tax difference in respect of scrapped assets will be eliminated.

### [New rules for tax deductibility of certain expenses](#)

The expenses for shortages of goods from stores where the consumers have direct access to the goods sold shall be tax deductible up to 0.25% of the net sales revenue from the particular store irrespective of the store's area.

Costs incurred after 2007 for marketing research, business plans and company strategies shall be tax deductible. The requirement to treat these costs as intangible assets and depreciate them accordingly is abolished.

### [Recognition of representative expenses and expenses related to use of cars for management purposes](#)

The representative expenses as well as the expenses related to use of cars for management purposes, which have been taxed with one-off tax, shall be treated as documentally supported if evidenced with cash receipt only. Further, the expenses related to use of cars do not need to be supported by a car travel booklet.

### [Amendments to the tax treatment of business combinations](#)

Some changes in the existing provisions aimed at clarifying the tax treatment of business combinations are introduced.

It is explicitly provided that newly created assets as a result of certain qualifying business combinations cannot be depreciated for tax purposes. Further, the amendments clearly state that income from negative goodwill resulting from such business combinations shall not be considered for tax purposes.

### [Changes in the regulations regarding tax incentives](#)

The provisions regarding the corporate income tax incentives have been amended to reflect the EU rules in respect of state aid admissibility. It is important to note that some of the amendments in this area are effective as of the beginning of 2007, i.e. they have retroactive effect.

As of 2008 the possibility to decrease under certain conditions the corporate income tax due with up to 10% of the value of the fixed assets acquired is abolished.

### [Amendments to the treatment of hidden profit distribution](#)

The definition for hidden profit distribution shall also cover interest expenses under some loans as determined by the law, including the case where the interest payment depends on the realisation of certain profit by the borrower. Further, the amount of the potential penalty in respect of hidden profit distribution is decreased from 50% to 20% of the relevant expense.

[Please address any queries for additional information or assistance to your usual PricewaterhouseCoopers contact or to the persons listed in the contact list.](#)

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