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\*Note: An update of the English text of this Act is being prepared

following the amendments in SG No. 108/19.12.2007 (effective

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Text in Bulgarian: Закон за корпоративното подоходно облагане

PART ONE

## GENERAL DISPOSITIONS

### Chapter One

## GENERAL PROVISIONS

### Scope of Taxation

Article 1. This Act regulates taxation of:

1. the profit accruing to resident legal persons;
2. the profit accruing to resident legal persons which are not merchants, including the organizations of the religious denominations, from any transactions covered under Article 1 of the Commerce Act , as well as from letting movable and immovable property;
3. the profit accruing to non-resident legal persons from a permanent establishment in the Republic of Bulgaria;
4. the income, as specified in this Act, accruing to resident and non-resident legal persons from a source inside the Republic of Bulgaria;
5. the expenses as specified in Part Four herein;
6. the activities of organizers of games of chance;
7. the income accruing to public-financed enterprises from any transactions covered under Article 1 of the Commerce Act , as well as from letting movable and immovable property;
8. the vessels operation activity of persons which carry out maritime merchant shipping.

### Taxable Persons

Article 2. (1) Taxable persons shall be:

1. the resident legal persons;
2. the non-resident legal persons which carry out economic activity in the Republic of Bulgaria through a permanent establishment or which receive income from a source inside the Republic of Bulgaria;
3. the sole traders: in respect of the taxes withheld at source and in the cases specified in the Income Taxes on Natural Persons Act ;
4. the natural persons who are merchants within the meaning given by Article 1 (3) of the Commerce Act : in the cases specified in the Income Taxes on Natural Persons Act ;

5. the employers and the commissioning entities under contracts for management and control: in respect of the tax on the expenses on fringe benefits, provided for in Part Four herein.

(2) For the purposes of this Act, the unincorporated associations and the contribution payment centres established in pursuance of Article 8 of the Social Insurance Code shall be treated as equivalent to legal persons.

(3) For the purposes of taxation of income from a source inside the Republic of Bulgaria, any non-resident organizationally and economically distinct formation (trust, fund and other such), which independently carries out economic activity or performs and manages investments, shall likewise be a taxable person where the owner of the income cannot be identified.

#### Resident Legal Persons

Article 3. (1) "Resident legal persons" shall be:

1. any legal persons incorporated under Bulgarian law;

2. any companies incorporated under Council Regulation (EC) No 2157/2001, and any cooperative society incorporated under Council Regulation No 1435/2003, where the registered office thereof is situated in the country and they are entered into a Bulgarian register.

(2) Any resident legal persons shall be liable to taxes under this Act in respect of the profits and income accruing thereto from all sources inside and outside the Republic of Bulgaria.

#### Non-resident Legal Persons"

Article 4. (1) "Non-resident legal persons" shall be any persons which are not resident persons.

(2) Any non-resident legal persons shall be liable to taxes under this Act in respect of the profits realized through a permanent establishment in the Republic of Bulgaria and of the income as specified in this Act accruing from a source inside the Republic of Bulgaria

#### Types of Taxes

Article 5. (1) Profits shall attract a corporation tax.

(2) The income accruing to any resident and non-resident legal persons, as specified in this Act, shall attract a tax withheld at source.

(3) The expenses, as specified in this Act, shall attract a tax on expenses.

(4) A tax alternative to corporation tax shall be levied on:

1. the activity of organizing games of chance;

2. the income accruing to public-financed enterprises from any transactions covered under Article 1 of the Commerce Act , as well as from letting movable and immovable property;

3. the vessels operation activity.

#### Determination of Amount of Tax

Article 6. The amount of tax shall be determined by multiplying the taxable amount by the rate of tax.

#### Tax Returns

Article 7. The standard forms of returns and of other documents under this Act shall be endorsed by an order of the Minister of Finance and shall be promulgated in the State Gazette.

#### Remittance of Taxes

Article 8. (1) The taxes due under this Act shall be remitted by the taxable persons in revenue to the executive budget.

(2) The taxes due shall be credited to an account of the National Revenue Agency territorial directorate exercising competence over the place of registration of the taxable persons or over the place where the taxable persons are registrable.

(3) The taxes due shall be deemed to be remitted on the date on which the amounts are received in the executive budget on the account of the competent National Revenue Agency territorial directorate.

#### Default Interest

Article 9. Interest according to the Interest on Taxes, Fees and Other State Receivables Act shall be due on any taxes which are not remitted when due, including any tax prepayments.

#### Documentary Support

Article 10. (1) An accounting expense shall be recognized for tax purposes where it is supported by an accounting source document within the meaning given by the Accountancy Act.

(2) An accounting expense shall be recognized for tax purposes even where part of the information required under the Accountancy Act is missing in the accounting source document, provided that documents certifying any such missing information are available.

(3) Outside the cases referred to in Paragraph (2), an accounting expense shall be recognized even where the accounting source document has been issued by a person which is not an enterprise within the meaning given by Article 1 (2) of the Accountancy Act and part of the information required under the Accountancy Act is missing in the document, provided that the said document gives a true view of the business transaction documented.

(4) The taxable persons shall be obligated to register and account for any sale of goods and services as effected by means of issuing a fiscal cash receipt printed by a fiscal device according to a procedure established by an ordinance of the Minister of Finance, except where payment is effected by bank transfer or through an offset. The lack of a fiscal cash receipt printed by a fiscal device, where the issuance of such a receipt is obligatory, shall be grounds to deny recognition of an accounting expense for tax purposes.

(5) In respect of international air transport, an accounting expense shall be supported by documents where documented by means of an accounting source document and the boarding pass for the flight executed. Where the accounting source document (protocol) is issued by the person who effects the sale on behalf and for the account of the carrier, the said person shall be deemed to be an issuer of the said document.

#### Expenses Defined as Compulsory by Statutory Instrument

Article 11. Any expenses defined as compulsory by a statutory instrument shall be recognized for tax purposes and shall not attract a tax on expenses, unless otherwise provided for in this Act.

#### Chapter Two

### SOURCES OF PROFIT AND INCOME

#### Profit and Income from Sources Inside Republic of Bulgaria

Article 12. (1) Any profit and income accruing to non-resident legal persons, derived from economic activity carried out through a permanent establishment in the country or from disposition of property of any such permanent establishment, shall have their source inside the country.

(2) Any income from financial assets issued by resident legal persons, the [Bulgarian] State and the municipalities, shall have its source inside the country.

(3) Any income from transactions in financial assets referred to in Paragraph (2) shall have its source inside the country.

(4) Any income from dividends and shares in a liquidation surplus, accruing from participating interests in resident legal persons, shall have its source inside the country.

(5) The following income, charged by resident legal persons, resident sole traders or non-resident legal persons and sole traders through a permanent established or a fixed base in the country or paid by resident natural persons or by non-resident natural persons who have a fixed base in the country in favour of non-resident legal persons, shall have its source inside the country:

1. any interest payments, including interest within payments under a financial lease contract;
2. any income from rent or other provision for use of movable or immovable property;
3. any copyright and licence royalties;
4. any technical assistance fees;
5. any payments received under franchising agreements and factoring contracts;
6. any compensations for management or control of a Bulgarian legal person.

(6) Any income covered under Paragraph (5), which is charged in favour of non-resident legal persons from a permanent establishment of a resident person or from a fixed base of resident natural persons situated outside the territory of the country, shall not have its source inside the country if there is an effective convention for the avoidance of double taxation between the Republic of Bulgaria and the State in which the permanent establishment or the fixed base is situated.

(7) Any income from agriculture, forestry, hunting ground management and fisheries within the territory of the country shall have its source inside the country.

(8) Any income from immovable property or from transactions in immovable property, including an undivided interest or a limited right in rem to any immovable property situated in the country, shall have its source inside the country.

(9) Upon determination of the source of income under this Article, the place of payment of the income shall be ignored.

### Chapter Three

## INTERNATIONAL TAXATION

### International Treaties

Article 13. Where an international treaty, which has been ratified by the Republic of Bulgaria, has been promulgated and has entered into force, contains any provisions different from the provisions of this Act, the provisions of the relevant international credit shall prevail.

### Foreign Tax Credit

Article 14. (1) Where the provisions of an international treaty referred to in Article 13 herein are not applied, the taxable persons shall be allowed foreign tax credit under the terms and according to the procedure established by this Act.

(2) Upon assessment of the corporation tax or of the alternative taxes under this Act, the taxable persons shall be allowed foreign tax credit in respect of each tax similar to corporation tax or imposed in lieu of such tax and paid abroad.

(3) The taxable persons shall be allowed foreign tax credit in respect of the tax imposed abroad on the gross amount of the income from dividends, interest payments, copyright and licence royalties, technical assistance fees and rents.

(4) The tax credit referred to in Paragraphs (2) and (3) shall be determined for each State and for each type of income separately and shall be limited to the amount of the Bulgarian tax on the said profits or income.

### Chapter Four

## PREVENTION OF TAX EVASION

### Transactions between Related Parties

Article 15. Where related parties enter into commercial and financial relationships under terms which affect the amount of the tax financial result and which differ from the terms between unrelated parties, the tax financial result shall be determined and taxed under the terms which would have arisen in respect of unrelated parties.

### Tax Evasion

Article 16. (1) Where one or more transactions, inter alia between unrelated parties, has been concluded under terms whereof the fulfilment leads to tax evasion, the tax financial result shall be determined ignoring the said transactions, certain terms thereof or the legal form thereof and taking into consideration the tax financial result that would be obtained upon the effecting of a customary transaction of the relevant type at market prices and intended to achieve the same economic result but which does not lead to tax evasion.

(2) The following shall furthermore be treated as tax evasion:

1. any substantial excess of the quantities of raw and prime materials used as production inputs and other production costs over the customary quantities and costs for the activity carried out by the person, where any such excess is not due to reasons beyond the control of the person;
2. any contracts of loan for use or other gratuitous provision for use of tangible and intangible benefits;
3. any borrowing or lending at interest diverging from the market rate of interest as applicable at the time of conclusion of the transaction, including in the cases of interest-free loans or other temporary gratuitous financial assistance, as well as the write-off of debts or repayment of non-business debts for own account;
4. payment of any remunerations or compensations for any services which have not been actually performed.

(3) Where a transaction is concealed by another, colourable transaction, the tax liability shall be assessed under the terms of the concealed transaction.

### Transfers Related to Permanent Establishment

Article 17. This Chapter shall furthermore apply, mutatis mutandis, to any transfers between a permanent establishment and other divisions of the enterprise of a non-resident person situated outside the country, conforming to the specifics of the permanent establishment.

## PART TWO

## CORPORATION TAX

### Chapter Five

## GENERAL DISPOSITIONS

### Tax Financial Result

Article 18. (1) "Tax financial result" shall be the accounting financial result adjusted according to the procedure established by this Part.

(2) The positive tax financial result shall be a tax profit.

(3) The negative tax financial result shall be a tax loss.

### Taxable Amount

Article 19. The taxable amount for assessment of the corporation tax shall be the tax profit.

### Rate of Tax

Article 20. The rate of corporation tax shall be 10 per cent.

### Tax Period

Article 21. (1) The tax period for assessment of the corporation tax shall be the calendar year, save as otherwise

provided for in this Act.

(2) In respect of any newly incorporated taxable persons, the tax period shall cover the period from the date of incorporation thereof until the end of the year, save as otherwise provided for in this Act.

## Chapter Six

### GENERAL DISPOSITIONS REGARDING DETERMINATION OF TAX FINANCIAL RESULT

#### Determination of Tax Financial Result

Article 22. The tax financial result shall be determined by means of adjusting the accounting financial result, according to a procedure and in a manner specified in this Part, for:

1. the permanent tax differences;
2. the temporary tax differences;
3. the amounts provided for in this Part.

#### Permanent Tax Differences and Adjustment of Accounting

##### Financial Result for Such Differences

Article 23. (1) "Permanent tax differences" shall be accounting income or expenses which are not recognized for tax purposes.

(2) For the purposes of determination of the tax financial result, where this Act indicates that:

1. a cost (loss) is not recognized for tax purposes, the accounting financial result shall be credited with any such cost (loss) in the year of accounting for the said cost (loss), and the accounting financial results shall not be adjusted during the succeeding years;

2. an income (profit) is not recognized for tax purposes, the accounting financial result shall be debited with any such income (profit) in the year of accounting for the said income (profit), and the accounting financial results shall not be adjusted during the succeeding years.

#### Temporary Tax Differences and Adjustment of Accounting

##### Financial Result for Such Differences

Article 24. (1) Temporary tax differences shall arise where any income or expenses are recognized for tax purposes in a year other than the year of accounting for the said income or expense.

(2) A "temporary tax difference" shall be:

1. any expense unrecognized for tax purposes in the year of accounting for any such expense, which will be recognized during succeeding years, when the conditions for recognition according to this Part occur;

2. any income unrecognized for tax purposes in the year of accounting for any such income, which will be recognized during succeeding years, when the conditions for recognition according to this Part occur.

(3) Temporary tax differences shall furthermore originate in the cases of transformation of corporations and cooperatives according to the procedure established by Chapter Nineteen herein.

(4) For the purposes of determination of the tax financial result, where this Act indicates that:

1. any cost (loss), which is not recognized for tax purposes in the year of accounting and will be recognized during succeeding years when the condition for recognition according to this Part occurs:

(a) the accounting financial result in the year of accounting for the cost (loss) shall be credited with any such cost (loss): origination of a temporary tax difference;

(b) the accounting financial result in the year when the condition for recognition according to this Part occurs shall be debited with any such cost (loss): reversal of a temporary tax difference;

2. any income (profit), which is not recognized for tax purposes in the year of accounting and will be recognized during succeeding years when the condition for recognition according to this Part occurs:

(a) the accounting financial result in the year of accounting for the income (profit) shall be debited with any such income (profit): origination of a temporary tax difference;

(b) the accounting financial result in the year of when the condition for recognition according to this Part arises shall be credited with any such income (profit): reversal of a temporary tax difference.

#### Tax-Recognized Income and Cost

Article 25. For the purposes of determination of the tax financial result, where this Act indicates that any income (cost) or profit (loss) is recognized for tax purposes in the year of accounting for such income, the accounting financial result for the current year or any succeeding years shall not be adjusted for the said income (cost) or profit (loss).

#### Chapter Seven

### PERMANENT TAX DIFFERENCES

#### Expenses Unrecognized for Tax Purposes

Article 26. The following accounting expenses shall not be recognized for tax purposes:

1. any non-business expenses;
2. any expenses which are not supported by documents within the meaning given by this Act;
3. any expenses on tax charged or credit for input tax used according to the Value Added Tax Act , where the expense incurred on the business transaction wherewith the value added tax is associated is not recognized for tax purposes;
4. any expense on value added tax charged by a supplier, including by the revenue authority, in connection with a supply effected, with the exception of tax charged in connection with deregistration under the Value Added Tax Act ; sentence one shall furthermore apply in the cases referred to in Article 177 of the Value Added Tax ;
5. any subsequent expenses accounted for in connection with a claim which has originated from a tax charged or credit for input tax used under Items 3 and 4;
6. any expenses on fines charged, forfeitures and other sanctions imposed for violation of statutory instruments, any default interest charged for late payment of public state or municipal debts;
7. any donation expenses other than such covered under Article 31 herein;
8. any expenses on a tax which is subject to withholding at source and is for the account of the payer of the income;
9. any wage expenses at commercial corporations wherein the State or a municipality holds an interest exceeding 50 per cent in excess of the resources fixed by statutory instruments.

#### Income Unrecognized for Tax Purposes

Article 27. (1) The following accounting income shall not be recognized for tax purposes:

1. any income resulting from distribution of dividends by resident legal persons;

2. any income originating in connection with any expenses unrecognized for tax purposes, as referred to in Article 26 herein, up to the amount of the unrecognized expenses;

3. any income from interest payments on unduly remitted or collected public obligations, as well as on value added tax not refunded within the statutory time limits, charged by the central-government or municipal authorities.

(2) Item 1 of Paragraph (1) shall not apply:

1. to any income charged as a result of distribution of dividends by licensed special purpose investment companies under the Special Purpose Investment Companies Act ;

2. upon hidden profit distribution.

Unrecognized Expenses on Shrinkage and Wastage

Article 28. (1) Any accounting expenses on shrinkage of fixed and current assets shall not be recognized for tax purposes, with the exception of such due to a force majeure.

(2) Any accounting expenses on shrinkage and waste of stocks of materials shall not be recognized for tax purposes.

(3) Paragraph (2) shall not apply where the expenses are due to:

1. a force majeure;

2. spoilage or alteration of physical and chemical properties, as established by a statutory instrument or by company standards, where a statutory instrument does not exist, and in the customary amounts for the relevant activity;

3. expiry of the service life according to a statutory instrument or company standards, where a statutory instrument does not exist, and in the customary amounts for the relevant activity.

(4) Any tax expense referred to in Article 79 (3) of the Value Added Tax Act on any assets, which is not recognized according to the procedure established by Paragraphs (1) to (3), shall not be recognized for tax purposes.

(5) Any subsequent accounting expenses, which have been accounted for in connection with a claim originating from shrinkage and wastage of any assets unrecognized according to the procedure established by Paragraphs (1) to (4), shall not be recognized for tax purposes.

Unrecognized Expenses Originating in Connection

with Shrinkage and Wastage

Article 29. Any accounting expenses which have originated in connection with any shrinkage and wastage of assets or any claim related therewith shall not be recognized for tax purposes up to the amount of the unrecognized expenses referred to in Article 28 herein.

Recognition of Part of Undistributable Expenses of

Not-for-Profit Legal Entities

Article 30. (1) Any accounted for undistributable expenses, corresponding to the activity subject to levy of corporation tax, incurred by any not-for-profit legal entities, shall not be recognized for tax purposes.

(2) The part of the undistributable expenses, determined by multiplying the total amount of undistributable expenses by the ratio between the income from the activity subject to levy of corporation tax and all income accruing to the not-for-profit legal entity, shall be recognized for tax purposes.

Donation Expenses

Article 31. (1) The accounting expenses on donations to a total amount of up to 10 per cent of the positive accounting financial result (accounting profit) shall be recognized for tax purposes where the expenses on donations are incurred in favour of:



1. any health-care and medical-treatment facilities;
2. any specialized institutions for provision of social services according to the Social Assistance Act , as well as of the Social Assistance Agency and of the Social Assistance Fund under the Minister of Labour and Social Policy;
3. any specialized child institutions according to the Child Protection Act , as well as of any care homes for children deprived of parental care according to the Public Education Act ;
4. any creches, kindergartens, schools, higher schools or academies;
5. any public-financed enterprises within the meaning given by the Accountancy Act ;
6. any religious denominations registered in the country;
7. any specialized enterprises or cooperatives of persons with disabilities, entered in the register referred to in Article 29 of the Integration of Persons with Disabilities Act , as well as in favour of the Agency for Persons with Disabilities;
8. any persons with disabilities, as well as for technical aids therefor;
9. any victims of crises within the meaning given by the Crisis Management Act , or of the families thereof;
10. the Bulgarian Red Cross;
11. any socially disadvantaged persons;
12. any children with disabilities or parentless children;
13. any cultural institutes, or for the purposes of cultural, educational or research exchange under an international treaty whereto the Republic of Bulgaria is a party;
14. any not-for-profit legal entities, registered in the Central Register of Not-for-Profit Legal Entities for pursuit of public benefit activities, with the exception of organizations supporting culture within the meaning given by the Financial Support for Culture Act ;
15. any schoolchildren and students at Bulgarian schools in respect of the scholarships instituted and provided thereto for instruction;
16. the Bulgaria Energy Efficiency Fund;
17. any therapeutic communities for narcotics-dependent persons, as well as of narcotics-dependent persons for the therapy thereof.

(2) Accounting expenses on donations shall be recognized for tax purposes to an amount of up to 50 per cent of the accounting profit where the expenses on donations are incurred in favour of the Fund for Medical Treatment of Children Centre.

(3) The assistance provided gratuitously under the terms and according to the procedure established by the Financial Support for Culture Act shall be recognized for tax purposes to an amount of up to 15 per cent of the accounting profit.

(4) Any expenses on donations of computers and computer peripheral equipment, which are manufactured within one year prior to the date of the donation, and made in favour of Bulgarian schools, including higher schools, shall be recognized for tax purposes.

(5) The aggregate amount of the expenses on donations recognized for tax purposes under Paragraphs (1) to (4) may not exceed 65 per cent of the accounting profit.

(6) The entire expense on a donation shall not be recognized for tax purposes where the donation benefits, whether directly or indirectly, the managers who make it or those who dispose of the said donation, or where there is evidence that the gift has not been received.

#### Taxable Person's Formation Expenses

Article 32. (1) The accounting expenses on the incorporation of a legal person shall be recognized for tax purposes at the taxable persons which are incorporators. The unrecognized expenses shall be recognized for tax purposes upon determination of the tax financial result of the newly formed legal person in the year of commencement of the legal existence thereof.

(2) The expenses referred to in Paragraph (1) shall be recognized for tax purposes in respect of the incorporators upon occurrence of circumstances determining that the legal existence of a new legal person will not commence. The said expenses shall be recognized in the year of occurrence of the said circumstances, if the requirements of this Act are complied with.

#### Natural Persons' Travel and Per Diem Expenses

Article 33. The accounting travel and per diem expenses of any natural persons who are in employment relationships with the taxable person or are hired thereby under non-employment relationships shall be recognized for tax purposes where the travel and stay were performed in connection with the activity of the taxable person.

#### Chapter Eight

### TEMPORARY TAX DIFFERENCES

#### Non-recognition of Income and Expenses from Subsequent Valuations

##### (Revaluations and Impairments)

Article 34. (1) Any income and expenses from subsequent valuations of assets and liabilities shall not be recognized for tax purposes in the year of accounting for the said income and expenses.

(2) Paragraph (1) shall not apply in respect of any accounting income and expenses from subsequent valuations of monetary positions in foreign currency at the central exchange rate of the Bulgarian National Bank.

#### Recognition of Expenses and Income from Subsequent Valuations

##### (Revaluations and Impairments)

Article 35. (1) Any income and expenses from subsequent valuations unrecognized for tax purposes according to the procedure established by Article 34 herein shall be recognized for tax purposes in the year of write-off of the relevant asset or liability.

(2) Where the value of the stocks of materials of a specific type, written off during the current year, exceeds the value of the stocks of materials of the said type as at the 31st day of December of the preceding year, the unrecognized income referred to in Article 34 herein in respect of the said type of stocks of materials during preceding years shall be recognized for tax purposes during the current year.

(3) Paragraphs (1) and (2) shall not apply in the cases of shrinkage and wastage of assets, which are not recognized for tax purposes according to the procedure established by Article 28 herein.

#### Income and Expenses from Initial Recognition and Subsequent

##### Valuation of Biological Assets and Agricultural (Farming) Produce

Article 36. (1) Any excess of the income (profits) from an initial recognition and subsequent valuation of biological assets and agricultural (farming) process over the expenses accounted for in connection with the said assets shall not be recognized for tax purposes in the year of accounting for the said income and expenses. Any excess of the income referred to in sentence one shall be recognized for tax purposes in the year of write-off of the relevant asset.

(2) Any excess of the expenses reported in connection with biological assets and agricultural (farming) process, over

the incomes (profits) from an initial recognition and subsequent valuation of said assets shall not be recognized for tax purposes in the year of accounting for the said income and expenses. Any excess of the expenses referred to in sentence one shall be recognized for tax purposes in the year of write-off of the relevant asset.

(3) The provisions of Articles 34 and 35 herein shall not apply to any biological assets and agricultural produce.

#### Recognition of Income and Expenses from Subsequent

##### Valuations of Claims

Article 37. Any income and expenses from subsequent valuations of claims unrecognized according to the procedure established by Article 34 herein shall be recognized for tax purposes in the year in which one of the following circumstances occurs:

1. lapse of the prescription of the claim, but not more than five years after the time the said claim became exigible;

2. onerous transfer of the claim;

3. the bankruptcy proceedings against the debtor have been closed by a confirmed plan for rehabilitation which provides for incomplete satisfaction of the taxable person; the unrecognized income and expenses shall be recognized for tax purposes solely in respect of the diminution in the claim;

4. an effective judgment of court has decreed that the claim or a part thereof is undue; the unrecognized income and expenses shall be recognized for tax purposes solely in respect of the undue part of the claim;

5. prior to the lapse of the prescription, the claims have been extinguished by virtue of a law;

6. upon expungement of the debtor, where the claim or part thereof has been left unsatisfied: recognition shall be limited to the unsatisfied part.

##### Provisions for Debts

Article 38. (1) Any expenses on provisions for debts shall be recognized for tax purposes in the year of accounting for any such expenses.

(2) Any expenses on provisions unrecognized under Paragraph (1) shall be recognized for tax purposes in the year of repayment of the debt for which the provision has been recognized up to the amount of the debt repaid.

(3) The accounting income accounted for in connection with a provision recognized shall not be recognized for tax purposes.

#### Provisions Not Included in Tax Depreciable Value

##### of Tax Depreciable Asset

Article 39. (1) Upon determination of the tax financial result, the accounting financial result shall be debited with the repaid debts related to any provisions which are not included in the tax depreciable value of a tax depreciable asset according to Article 53 (1) herein. The debiting referred to in sentence one shall be performed in the year of repayment of the debt.

(2) The accounting income accounted for in connection with the provision recognized shall not be recognized for tax purposes.

#### Specific Procedure for Recognition of Expenses on Provisions

##### for Debts upon Cessation of Activity

Article 40. (1) Any taxable person, which has applied Article 38 (1) or Article 53 (1) herein and has entirely ceased the core activity thereof in the year of repayment of the debts in respect of which a provision unrecognized for tax purposes has been charged, shall not apply the provisions of Article 38 (2) or Article 39 (1) herein and shall be entitled to an offset or refund of the overremitted corporation tax as arrived at according to the procedure established by Paragraph (2).

(2) The overremitted corporation tax shall be arrived at as a product of the repaid part of the debts, in respect of which a provision unrecognized for tax purposes has been charged, and the rate of corporation tax for the year of repayment of the debts. The repaid part of the debts for the purposes of sentence one may not exceed the sum total of the tax financial results for the ten years last preceding the year of cessation of activity.

#### Unused Leaves

Article 41. (1) Any expenses on accumulating unused (compensable) leaves at the 31st day of December of the current year, as well as any expenses connected with any such leaves, for compulsory social and health insurance, shall not be recognized for tax purposes in the year of accounting for any such expenses.

(2) Any unrecognized expenses on accumulating unused (compensable) leaves referred to in Paragraph (1) shall be recognized for tax purposes in the year during which compensations for the said leaves was actually paid to the staff, up to the amount of the compensations paid.

(3) Any unrecognized expenses on compulsory social and health insurance referred to in Paragraph (1) shall be recognized for tax purposes in the year during which the relevant social and health insurance contributions were remitted, up to the amount of the insurance contributions remitted.

(4) Any accounting expenses accounted for in connection with any debts referred to in Paragraph (1) shall not be recognized for tax purposes.

#### Expenses Constituting Income Accruing to Resident Natural Persons

Article 42. (1) Any expenses incurred by taxable persons, constituting income accruing to resident natural persons under the Income Taxes of Natural Persons Act, which are not paid as at the 31st day of December of the current year, shall not be recognized for tax purposes in the year of accounting for any such expenses.

(2) Paragraph (1) shall not apply to any expenses constituting:

1. a basic or supplementary labour remuneration, fixed by a statutory instrument;
2. income accruing to sole traders.

(3) The expenses unrecognized under Paragraph (1) shall be recognized for tax purposes in the year during which the income is paid, up to the amount of the income paid.

(4) The accounting income accounted for in connection with any unpaid income referred to in Paragraph (1) shall not be recognized for tax purposes.

#### Regulation of Thin Capitalization

Article 43. (1) Any expenses on interest payments shall not be recognized for tax purposes in the year of accounting for any such expenses to an amount arrived at for the current year according to the following formula:

$UEIP = EIP - IIR - 0.75 \times AFRBI$ , where:

UEIP shall be the unrecognized expenses on interest payments;

EIP shall be the expenses on interest payments arrived at according to the procedure established by Paragraph (3);

IIR shall be the total amount of income from interest receivable;

FRBI shall be the accounting financial result before all expenses on interest payments and income from interest receivable.

(2) Any expenses on interest payments, unrecognized under Paragraph (1), shall be recognized for tax purposes during the next succeeding five years until depletion of the said expenses, to an amount arrived at for the current year according to the following formula:

$REIP = 0.75 \times FRBI + IIR - EIP$ , where:

REIP shall be the recognized expenses on interest payments;

FRBI shall be the accounting financial result before all expenses on interest payments and income from interest receivable;

IIR shall be the total amount of income from interest receivable;

EIP shall be the expenses on interest payments arrived at according to the procedure established by Paragraph (3) for the current year.

(3) The expenses on interest payments shall include all financial (interest) income, accounted for under financing by means of debt capital. The expenses on interest payments shall not include:

1. any interest payments on financial leases and bank loans, except where the parties to the transaction are related parties or the lease or the loan, as the case may be, is guaranteed or secured by or is extended on the order of a related party;
2. any penalty charges for late payments and damages;
3. any interest unrecognized for tax purposes on other grounds in this Act.

(4) Where the accounting financial result before all expenses on interest payments and income from interest receivable is a negative quantity, the said result shall be ignored upon determination of the amount of expenses on interest payments unrecognized and recognized under Paragraphs (1) and (2).

(5) The provisions of this Article shall apply in respect of any newly incurred expenses on interest payments, observing the sequence of the incurrance of the said expenses.

(6) Paragraph (1) shall not apply where:



DC1 shall be the debt capital as at the 1st day of January of the current year;

DC2 shall be the debt capital as at the 31st day of December of the current year;

OE1 shall be the owners' equity as at the 1st day of January of the current year;

OE2 shall be the owners' equity as at the 31st day of December of the current year.

(7) The expenses on interest payments incurred by credit institutions shall not be regulated according to the procedure established by Paragraphs (1) to (6).

Chapter Nine

## AMOUNTS INVOLVED UPON DETERMINATION OF TAX FINANCIAL RESULT

### Securities Traded on Regulated Markets

Article 44. Where the disposition of any shares and any negotiable rights attaching to shares in public companies, shares in and units of collective investment schemes, is effected on a regulated Bulgarian securities market, upon determination of the tax financial result the accounting financial result:

1. shall be debited with the profit determined as a positive difference between the selling price and the documented

cost of acquisition of the said securities, and

2. shall be credited with the loss determined as a negative difference between the selling price and the documented cost of acquisition of the said securities.

#### Subsequent Valuations Reserve in Respect of Assets which Are Not Tax

##### Depreciable Assets

Article 45. Upon determination of the tax financial result, the accounting financial result shall be credited with the value of the revaluation reserve (subsequent valuations reserve) written off upon the write-off of any assets which are not tax depreciable assets, where an accounting income has not been accounted for upon the write-off of the said reserve. The said crediting shall be effected in the year of write-off of the asset. Where any land is transformed into investment property, the said crediting shall be effected in the year of write-off of the investment property.

##### Tax Treatment of Debts

Article 46. (1) Upon determination of the tax financial result, the accounting financial result shall be credited with the amount of the debts of the taxable person originating from amounts which lead to a diminution in the tax financial result, and the said crediting shall be effected in the year in which one of the following circumstances occurs:

1. the debts are extinguished by prescription, but not more than five years after the time when the debt became exigible;

2. the bankruptcy proceedings against the taxable person have been closed by a confirmed plan for rehabilitation which provides for incomplete satisfaction of the creditors; the crediting shall be effected by the amount of the diminution in the debt;

3. an effective judgement of court has decreed that the debt or part thereof is undue;

4. the creditor has relinquished the claim thereof by a judicial procedure or has redeemed the said claim; the crediting shall be effected by the amount redeemed;

5. before the lapse of the prescription period, the debts have been extinguished by virtue of a law;

6. the taxable person has submitted a motion for expungement.

(2) The accounting income accounted for in connection with a write-off of the debts referred to in Paragraph (1) shall not be recognized for tax purposes.

##### Tax Treatment of Credit for Input Tax Deducted in Respect

##### of Assets Available or upon Registration or Re-registration

##### under Value Added Tax Act

Article 47. (1) Upon determination of the tax financial result, the accounting financial result shall be credited with the amount of the credit for input tax deducted by the taxable person in respect of the assets available as at the date of registration or re-registration under the Value Added Tax Act .

(2) The accounting income accounted for in connection with the credit for input tax deducted under Paragraph (1) shall not be recognized for tax purposes.

(3) Paragraphs (1) and (2) shall not apply in the cases where the tax deducted is not included in the value of the asset.

#### TAX DEPRECIABLE ASSETS

##### Tax Depreciable Assets

Article 48. Tax depreciable assets shall comprehend:

1. the tax tangible fixed assets;
2. the tax intangible fixed assets;
3. the investment properties, with the exception of land;
4. the subsequent expenses referred to in Article 64 herein.

Goodwill

Article 49. (1) Goodwill generated as a result of a business combination shall not be a tax depreciable asset.

(2) Any loss from impairment and upon write-off of goodwill shall not be recognized for tax purposes.

Tax Tangible Fixed Assets

Article 50. "Tax tangible fixed assets" shall be the amounts which satisfy the requirements for depreciable tangible fixed assets according to the National Financial Reporting Standards for Small and Medium-Sized Enterprises whose value equals or exceeds the lesser of:

1. the value materiality threshold for the tangible fixed asset, as adopted in the accounting policies of the taxable person;
2. five hundred leva.

Tax Intangible Fixed Assets

Article 51. (1) "Tax intangible fixed assets" shall be:

1. any acquired non-financial resources which:
  - (a) have no physical substance;
  - (b) are used during a period longer than twelve months;
  - (c) have a limited useful life;
  - (d) are of a value which equals or exceeds the lesser of:
    - (aa) the value materiality thresholds for the tangible fixed asset, as adopted in the accounting policies of the taxable person;
    - (bb) five hundred leva;
2. any amounts charged for marketing or analogous research, business plan and corporate strategies;
3. any amounts charged as a result of business transactions leading to an increase in the economic benefits flowing from a tax tangible fixed asset which is hired or provided for use; the said amounts shall not form a tax tangible fixed asset.

(2) Any accounting expenses, accounted for in connection with the acquisition of a tax tangible fixed asset before the origination of the said asset, shall not be recognized for tax purposes in the year of accounting for the said expenses and shall be involved upon determination of the tax depreciable value of the said asset. Where any circumstances determining that the taxable person will not acquire the tax intangible fixed asset occur in a succeeding year, the unrecognized expenses referred to in sentence one shall be recognized for tax purposes in the year of occurrence of any such circumstances, if the requirements of this Act are complied with.

Tax Depreciation Schedule

Article 52. (1) Any taxable persons which form a tax financial result shall prepare and keep a tax depreciation

schedule, posting therein all tax depreciable assets.

(2) The tax depreciation schedule shall be a tax ledger wherein the information, specified according to the requirements of this Act, regarding the process of acquisition, subsequent keeping, depreciation and write-off of the tax depreciable assets, shall be posted.

(3) The tax depreciation schedule shall contain, as a minimum, the following information on each tax depreciable asset:

1. designation;

2. month of commissioning;

3. tax depreciable value;

4. tax depreciation charged;

5. tax value;

6. annual rate of tax depreciation;

7. annual tax depreciation;

8. month of occurrence of any changes in the values of the asset and the circumstances necessitating the said changes;

9. month of discontinuance and resumption of the charging of tax depreciations and the circumstances which necessitate the said discontinuance and resumption;

10. month of write-off of the asset covered under Article 60 (3) herein for accounting purposes and the circumstances which necessitate the said write-off.

11. month of write-off of the asset in the tax depreciation schedule.

#### Values of Tax Depreciable Assets

Article 53. (1) The "tax depreciable value" shall be the historical cost of the asset debited with the charged provisions and donations associated with the asset which are included in the said cost. In the cases referred to in Article 64 (1) and Article 67 herein, the tax depreciable value shall be the sum total of:

1. the subsequent expenses: in the cases referred to in Article 64 (1) herein;

2. the expenses unrecognized for tax purposes: in the cases referred to in Article 67 herein.

(2) The "annual tax depreciation" shall be the depreciation charged in the tax depreciation schedule for the relevant year according to the requirements of this Chapter.

(3) The "tax depreciation charged" shall be the sum total of the annual tax depreciations for the relevant asset. The tax depreciation charged may not exceed the tax depreciable value of the asset.

(4) The "tax value" shall be the tax depreciable value of the asset debited with the tax depreciation charged for the said asset.

#### Tax and Accounting Depreciations

Article 54. (1) The tax depreciations, determined according to the procedure established by this Chapter, shall be recognized upon determination of the tax financial result.

(2) The accounting expenses on depreciation shall not be recognized for tax purposes.

#### Tax Depreciable Asset Categories



Article 55. (1) Upon determination of the annual tax depreciations, tax depreciable assets shall be allocated to the following categories:

1. Category I: solid buildings, including investment properties, plant, transmission facilities, electric power carriers, communication lines;
2. Category II: machinery, process equipment, apparatus;
3. Category III: means of transport excluding automobiles; surfacing of roads and of runways;
4. Category IV: computers, computer peripheral equipment, software, and right to use software;
5. Category V: automobiles;
6. Category VI: tax tangible and intangible fixed assets whereof the period of use is restricted according to contractual relationships or a legal obligation;
7. Category VII: all other depreciable assets.

(2) The annual rate of tax depreciation shall be determined on a single occasion for the year and may not exceed the following amounts:

Asset category	Annual rate of tax depreciation (%)
I	4
II	30
III	10
IV	50
V	25
VI	100/years of legal restriction The annual rate may not exceed 33 1/3
VII	15

(3) In respect of Category II assets, the annual rate of tax depreciation may not exceed 50 per cent, where the following conditions are simultaneously fulfilled:

1. the assets form part of an initial investment;
2. the assets are new as fabricated and have not been exploited prior to the acquisition thereof.

(4) The separate depreciable assets used by the taxable persons in the categories covered under Paragraph (1) shall be exhaustively classified by an ordinance of the Council of Ministers. The ordinance referred to in sentence one shall be

updated on a motion by the Minister of Finance over a period not longer than three years.

#### Standard Procedure for Posting of Assets in Tax Depreciation Schedule

Article 56. Tax depreciable assets shall be posted in the tax depreciation schedule at the tax depreciable value thereof.

#### Specific Procedure for Posting of Assets in Tax Depreciation Schedule

Article 57. (1) Any person, in respect of which the tax treatment changes as a result of which an obligation to form a tax financial result arises for the said person, shall prepare a tax depreciation schedule wherein the tax depreciable assets available at that time shall be posted at tax depreciable value and tax depreciation charged determined according to the procedure established by Paragraphs (2) and (3).

(2) The tax depreciable value of any asset referred to in Paragraph (1) shall be determined by means of:

1. crediting the historical cost of the said asset with the subsequent expenses incurred theretofore which, according to accounting legislation, lead to future economic benefits derived from the said asset;

2. debiting the historical cost of the said asset with the charged provisions and donations associated with the said asset which are included in the said cost.

(3) The tax depreciation charged for any asset referred to in Paragraph (1) shall be the accounting depreciation which would be charged theretofore on the historical cost of the said asset, adjusted according to the procedure established by Paragraph (2).

(4) Any assets for which the tax depreciation charged equals or exceeds the tax depreciable value thereof shall not be posted upon preparation of the tax depreciation schedule.

(5) Paragraphs (1) to (4) shall furthermore apply in the cases of re-posting of an asset in the tax depreciation schedule.

#### Charging of Tax Depreciations

Article 58. (1) Tax depreciation shall commence to be charged as from the beginning of the month in which the tax depreciable asset is commissioned. The date of commissioning must be supported by documents.

(2) Where a procedure for commissioning is provided for in a statutory instrument, the asset may not be commissioned for tax purposes earlier than what is established in the statutory instrument.

(3) The annual tax depreciation shall be arrived at according to the following formula:



where:

ATD shall be the annual tax depreciation;

TDV shall be the tax depreciable value;

ARTD shall be the annual rate of tax depreciation, determined by the taxable person according to Article 55 (2) and (3) herein;

M shall be the number of months of the year during which tax depreciation is charged.

#### Discontinuance of Charging of Tax Depreciations

Article 59. (1) Charging of tax depreciations shall be discontinued when the relevant asset is temporarily withdrawn from use (no economic benefit is derived therefrom) for a period not exceeding three months. Charging shall be discontinued as from the month next succeeding the month of withdrawal of the asset from use and shall be resumed as from the beginning of the month of re-commissioning of the said asset. The tax depreciable asset shall not be written off in the tax depreciation schedule.

(2) Paragraph (1) shall not apply where the temporary withdrawal from use of a tax depreciable asset is due to the specific nature of the manufacturing process of the taxable person.

(3) Charging of tax depreciations shall be discontinued where the relevant asset is withdrawn from use and no future economic benefits will be derived from use of the said asset in the course of activities. Where Article 60 (5) herein is not applied, the tax depreciable asset shall not be written off in the tax depreciation schedule at the time of discontinuance of the charging of tax depreciation.

(4) The charging of tax depreciations in respect of any assets covered under Article 60 (3) herein shall not be discontinued.

#### Write-off of Assets in Tax Depreciation Schedule

Article 60. (1) An asset shall be written off in the tax depreciation schedule where the said asset is completely depreciated for tax purposes.

(2) Where an asset is written off for accounting purposes before being fully depreciated for tax purposes, the said asset shall be written off in the tax depreciation schedule at the beginning of the month during which the said asset is written off for accounting purposes.

(3) Paragraph (2) shall not apply upon the write-off of any assets:

1. wherefrom a flow of economic benefit is not expected, including in the cases of retirement;
2. as a result of an increase in the value materiality threshold.

(4) Any assets referred to in Paragraph (3) shall be written off in the tax depreciation schedule according to the procedure established by Paragraph (1).

(5) Where any depreciable asset according to the National Financial Reporting Standards for Small and Medium-Sized Enterprises is transformed into a non-depreciable asset, with the exception of transformation into an investment property, the said asset shall be written off in the tax depreciation schedule as from the beginning of the current month.

(6) Where a tax depreciable asset ceases to be used for an activity in respect of which a tax financial result is formed, the said asset shall be written off in the tax depreciation schedule as from the beginning of the current month.

#### Retention of Values of Tax Depreciable Asset

Article 61. The values of the tax depreciable asset shall not change upon:

1. any subsequent accounting valuation (revaluation and impairment);
2. any change in accounting policy, including any change in the applicable accounting standards;
3. any accounting errors applying to prior periods, with the exception of technical errors;
4. registration or re-registration under the Value Added Tax Act .

#### Change in Tax Depreciable Asset Values

Article 62. (1) A change in the values of the tax depreciable asset shall be effected upon occurrence of any circumstances necessitating such a change according to accounting legislation, with the exception of the cases covered under Article 61 herein.

(2) The change in the values of the asset shall be shown in the tax depreciation schedule as at the 1st day of January of the year in which the circumstances necessitating the change have been ascertained. The tax depreciation schedule shall not be changed and the tax depreciation charged shall not be adjusted in respect of prior years.

(3) The values of the tax depreciable asset after the change must equal the value which would be determined if the circumstances necessitating the change were known during the prior years.

(4) Upon determination of the tax financial result, the annual tax depreciation of the asset for the current year shall be adjusted for the difference between the tax depreciation charged for the asset during the prior years and the annual tax depreciation which would be charged for the said years if the circumstances necessitating the change were known during the prior years.

(5) Where the circumstances ascertained do not necessitate a change in the values of the asset for prior years, the change in the values shall be shown in the tax depreciation schedule as at the time of ascertainment of the circumstance during the current year.

#### Subsequent Expenses Associated with Asset Available

##### in Tax Depreciation Schedule

Article 63. The tax depreciable value of any asset which is available in the tax depreciation schedule shall be credited with any subsequent expenses which, according to accounting legislation, lead to future economic benefits associated with the tax depreciable asset. The tax depreciable asset shall be credited as from the beginning of the month during which the said subsequent expenses were incurred.

#### Subsequent Expenses Associated with Asset Written Off

##### in Tax Depreciation Schedule

Article 64. (1) Where an asset has been written off in the tax depreciation schedule but has not been written off for accounting purposes, a separate tax depreciable asset shall be posted with the subsequent expenses which, according to accounting legislation, lead to future economic benefits associated with the said asset.

(2) The tax depreciable asset referred to in Paragraph (1) shall be posted in the tax depreciation schedule as from the beginning of the month during which the subsequent expenses were completed.

(3) For the purposes of Article 55 herein, the tax depreciable asset shall be allocated to the category to which the asset in connection with which the subsequent expenses have been incurred was allocated.

(4) Where the asset in connection with which the subsequent expenses have been incurred is written off in the tax depreciation schedule before the tax depreciable asset referred to in Paragraph (1) is fully depreciated, the said asset shall be written off in the tax depreciation schedule under the terms and according to the procedure established by Article 60 herein.

#### Income and Expenses from Subsequent Valuations of Tax

##### Depreciable Assets

Article 65. The accounting income and expenses from subsequent valuations of tax depreciable assets shall not be recognized for tax purposes.

#### Adjustment of Accounting Financial Result upon Write-Off

##### of Tax Depreciable Asset

Article 66. (1) Where an asset is written off in the tax depreciation schedule, upon determination of the tax financial result the accounting financial result shall be credited with the accounting carrying value of the asset.

(2) Where an asset is written off in the tax depreciation schedule, upon determination of the tax financial result the accounting financial result shall be debited with the tax value of the asset.

(3) Paragraphs (1) and (2) shall not apply:

1. in the cases of unrecognized expenses on shrinkage of assets and associated claims, where the tax value exceeds the accounting carrying value of the said asset;

2. upon write-off of an asset for the account of owners' equity, where the tax value exceeds the accounting carrying value of the said asset;

3. upon write-off of an asset according to the procedure established by Article 60 (6) herein, where the tax value exceeds the accounting carrying value of the said asset;

4. upon transformation of corporations and restructuring of cooperatives under Sections II and III of Chapter Nineteen herein.

#### Accounting Expenses Forming Tax Depreciable Asset

Article 67. Any accounting expenses forming a tax depreciable asset, including any subsequent expenses, shall not be recognized for tax purposes.

#### Income and Expenses Accounted for in Connection with

##### Donation Associated with Tax Depreciable Asset

Article 68. Any accounting income and expenses, accounted for in connection with a donation wherewith the historical cost has been debited upon determination of the tax depreciable value of the asset, shall not be recognized for tax purposes.

#### Specific Tax Treatment of Asset Formed as Result

##### of Development Activity

Article 69. (1) Upon determination of the tax financial result, the taxable person shall have the right to debit the accounting financial result thereof with the historical cost of an intangible fixed asset on a single occasion in the year of formation of the said result, where the following conditions are simultaneously fulfilled:

1. the asset has been formed as a result of development activity;
2. the development activity has been carried out in connection with the activity carried out by the taxable person as a regular business;
3. the development activity has been commissioned under market conditions to a scientific research institute or a higher school.

(2) Where the taxable person has exercised the right thereof under Paragraph (1), the intangible fixed asset accounted for under Paragraph (1) shall not be a tax depreciable asset.

#### Chapter Eleven

### CARRY-FORWARD OF TAX LOSS

#### General Dispositions

Article 70. (1) Taxable persons shall have the right to carry forward the tax loss formed according to the procedure established by this Part. Where a taxable person has elected to carry forward the tax loss, the said loss shall mandatorily be carried forward successively until the depletion thereof during the next succeeding five years.

(2) The taxable person shall exercise the right thereof to election by means of deduction of the tax loss during the first year after incurrence of a tax loss, during which the said person has formed a positive tax financial result before deduction of the tax loss. Where the taxable person has not formed a positive tax financial result before deduction of the tax loss until the date of tax control, the person shall be presumed to have exercised the right thereof to election in respect of carry-forward of a tax loss.

#### Procedure for Deduction

Article 71. (1) A tax loss shall be deducted upon determination of the tax financial result within the amount of the positive tax financial result before deduction of the tax loss. Where the tax loss is less than the positive tax financial result before deduction of the tax loss, the full amount of the said loss shall be deducted upon determination of the tax financial

result.

(2) The tax loss shall furthermore be deducted upon determination of the quarterly prepayments of corporation tax.

#### Newly Incurred Tax Losses

Article 72. The provisions of this Chapter shall apply in respect of any newly incurred tax losses, observing the sequence of incurrence of the said losses. In respect of each of the newly incurred tax losses, the five-year-period shall begin to run from the year next succeeding the year of incurrence of the said losses.

#### Loss from Source Outside Bulgaria upon Application of Exemption with

##### Progression Method

Article 73. (1) Any tax loss, formed during the current year in a State wherewith the Republic of Bulgaria has concluded a convention for the avoidance of double taxation and the method of avoidance of double taxation with respect to profits is exemption with progression, shall not be deducted from the tax profits from a source inside the country or other States during the current of succeeding years.

(2) The tax loss referred to in Paragraph (1) shall be deducted in compliance with the requirements of this Chapter successively solely from the tax profits from the source outside Bulgaria from which the said loss has been incurred during the next succeeding five years.

(3) Upon cessation of the activity of a permanent establishment in a Member State of the European Community or of the European Economic Area, any tax losses from a permanent establishment which have not been carried forward and have not been recovered shall be carried forward according to the standard procedure established by this Act until lapse of the five-year period since the incurrence of the said losses.

#### Loss from Source Outside Bulgaria upon Application of Credit Method

Article 74. (1) Where a taxable person has formed a tax loss and the said loss or a part thereof has its source outside Bulgaria in respect of which source the credit method for avoidance of double taxation is applied, the loss which is not deducted during the current year shall be deducted during the next succeeding five years in compliance with the requirements of this Chapter successively solely from the tax profits from the source outside Bulgaria from which the said loss has been incurred.

(2) Where the tax loss for the year has not been formed from a single source (foreign State or the country), the said loss shall be allocated for the purposes of Paragraph (1) among the States from which the said loss has originated according to the following formula:



where:

A shall be the part of the tax loss incurred by the taxable person for the year, allocated to the relevant source (foreign State or the country);

B shall be the tax loss formed by the taxable person for the year;

C shall be the tax loss formed from the relevant source (foreign State or the country);

D shall be the sum total of the tax losses formed from all sources (foreign States and the country).

(3) Paragraph (1) shall not apply to any losses from a source within a Member State of the European Community or of the European Economic Area.

## ACCOUNTING ERRORS

### Correction of Accounting Errors

Article 75. (1) Upon detection, during the current year, of any accounting error related to prior years, the tax financial results for the relevant prior years shall be corrected according to the requirements of the laws effective during the relevant prior years in a way as if the said error was not made.

(2) Upon determination of the tax liability on the tax financial result for a prior year as corrected under Paragraph (1), the rate of tax for the relevant prior year shall be applied.

(3) The annual corporation tax for the current year shall be corrected by the difference between the tax liability before and after the correction as a result of the error.

(4) Where, as a result of an error detected, it is established that the taxable person has continued to form a tax depreciable asset for the relevant prior year, an annual tax depreciation equal to the accounting depreciation shall be recognized upon determination of the tax financial results for the prior years, which may not exceed the annual tax depreciation which would be charged if the maximum permissible annual rates of tax depreciation under Article 55 herein were used. The tax depreciable asset shall be posted in the tax depreciation schedule as at the 1st day of January of the year of detection of the error at the tax depreciable value of the said asset and the tax depreciation charged under sentence one.

(5) The temporary tax difference which would originate during a prior year if the error was not made shall be considered as having originated during the relevant prior year and shall be recognized for tax purposes according to the standard procedure established by this Act.

(6) Paragraphs (1) to (3) shall not apply to any errors made more than five years before the current year which, if not made, would have led to a diminution in the tax financial result for the relevant prior year.

(7) All accounting income and expenses, accounted for during the current year in connection with a detected accounting error from prior years, shall not be recognized for tax purposes.

### Specific Cases of Correction of Accounting Errors

Article 76. Where, after correction of the tax financial result under Article 75 (1) herein, a tax loss for the relevant prior period is incurred or changes, the provisions of Chapter Eleven herein shall apply. The tax financial results for the years from the making of the error until the detection thereof shall be corrected according to the procedure established by Article 75 herein in such a way as if the error was not made. The year during which the error was made shall be considered a year of incurrence of the tax loss.

### Expenses Accounted for in Breach of Accounting Legislation

Article 77. (1) Any expenses accounted for in breach of accounting legislation shall not be recognized for tax purposes in the year of accounting for such expenses.

(2) The expenses unrecognized for tax purposes, referred to in Paragraph (1), shall be recognized for tax purposes where this is permissible under this Act and in compliance with the requirements of this Chapter.

### Income and Expenses Unaccounted for According to Procedure Established

#### by Statutory Instrument

Article 78. Upon determination of the tax financial result, the accounting financial result shall be corrected by the amount of income and expenses which should have been accounted for during the current year according to the requirements of a statutory instrument but which were not accounted for by the taxable person. Where any accounting income and expenses are subsequently accounted for in connection with a business transaction under sentence one, the said income and expenses shall not be recognized for tax purposes.

### Accounting Errors Related to Tax Depreciable Assets

Article 79. This Section, with the exception of Article 75 (4) and (7) herein, shall not apply in respect of any

accounting errors related to tax depreciable assets.

#### Default Interest

Article 80. Default interest according to the standard procedure shall furthermore be due upon application of Article 75 herein. The interest shall be due as from the date on which the corporation tax for the relevant prior year should have been remitted.

#### Corrections of Errors Detected upon Tax Control

Article 81. The provisions of this Chapter, with the exception of Article 75 (3) herein, shall furthermore apply in the cases of errors detected upon tax control.

#### Chapter Thirteen

### CHANGE IN ACCOUNTING POLICIES

#### Adjustment upon Change in Accounting Policies

Article 82. (1) Where the accounting policies change, upon determination of the tax financial result, the accounting financial result for the current year shall be adjusted in the manner and by the amount whereby the tax financial results for the prior years would have been adjusted if the changed accounting policies were applied during the said years.

(2) The temporary tax differences, which have originated according to the accounting policies applied before the change, shall be considered as not having originated.

(3) In case the changed accounting policies have been applied during the prior years and temporary tax differences would have originated as a result of this, the said differences shall be considered as having originated and shall be recognized according to the standard procedure established by this Act.

(4) Any accounting income and expenses, accrued and incurred as a result of changed accounting policies, shall not be recognized for tax purposes.

(5) Paragraphs (1) to (4) shall not apply upon any change in accounting policies related to tax depreciable assets.

(6) No default interest shall be due upon any change in accounting policies where the effect of the said change leads to an increase in the tax financial result.

#### Chapter Fourteen

### TAX PREPAYMENTS

#### General Dispositions

Article 83. Any taxable person shall make monthly or quarterly prepayments of corporation tax.

#### Monthly Tax Prepayments

Article 84. Monthly tax prepayments shall be made by any taxable person which has formed a tax profit for the last preceding year.

#### Quarterly Tax Prepayments

Article 85. Quarterly tax prepayments shall be made by any taxable person which is under no obligation to make monthly tax prepayments.

#### Determination of Monthly Tax Prepayments

Article 86. The monthly tax prepayments shall be determined according to the following formula:





where:

PRMONTHLY shall be the monthly tax prepayment;

PD shall be the tax profit declared for the year before the last preceding year (upon determination of monthly tax prepayments for the period from the 1st day of January until the 31st day of March) or the tax profit declared for the last preceding year (upon determination of monthly tax prepayments for the period commencing on the 1st day of April and ending on the 31st day of December);

k shall be the coefficient reflecting changes in the economic conditions for the current year, as endorsed by the State Budget of the Republic of Bulgaria Act for the relevant year;

RT shall be the rate of corporation tax.

#### Determination of Quarterly Tax Prepayments

Article 87. The quarterly tax prepayments shall be determined according to the following formula:



where:

PRQUARTERLY shall be the monthly tax prepayment;

TP shall be the tax profit for the period from the beginning of the year until the end of the quarter for which the quarterly tax prepayment is determined;

RT shall be the rate of corporation tax;

PRREMITTED shall be the tax prepayments remitted from the beginning of the year until the end of the quarter for which the quarterly tax prepayment is determined.

#### Declaration on Reduction of Tax Prepayments

Article 88. (1) The taxable persons may submit a declaration in a standard form on reduction of tax prepayments when the said persons assume that the said prepayments will exceed the annual corporation tax due.

(2) The reduction of tax prepayments shall be enjoyable after submission of the declaration.

#### Interest upon Excessive Reduction of Tax Prepayments

Article 89. (1) Where the taxable person has reduced the tax prepayments thereof according to the procedure established by Article 88 herein and the annual corporation tax due exceeds the tax prepayments due for the relevant year by more than 10 per cent, interest shall be due.

(2) The amount whereon interest is due under Paragraph (1) shall be arrived at as a difference between the annual corporation tax due and the tax prepayments due for the year. Where the sum total of the tax prepayments for the year, as determined according to the procedure established by Article 86 or 87 herein, is less than the annual corporation tax due, the said prepayments shall be taken into consideration instead of the annual corporation tax upon determination of the difference referred to in sentence one.

(3) For the purpose of calculation of the interest referred to in Paragraph (1), the amount referred to in Paragraph (2) shall be allocated to the relevant months/quarters during which a reduced tax prepayment has been declared according to Article 88 herein. The part of the amount referred to in Paragraph (2), as allocated to the relevant month/quarterly, shall be arrived at according to the following formula:



where:

A shall be the part of the amount whereon interest is due, allocated to the relevant month/quarter during which a reduced tax prepayment has been declared according to Article 88 herein;

B shall be the tax prepayment as determined according to the procedure established by Article 86 or 87 herein for the relevant month/quarter;

C shall be the tax prepayment due for the relevant month/quarter;

D shall be the aggregate amount whereon a default interest is due, as determined according to the procedure established by Paragraph (2);

E shall be the sum total of the tax prepayments for the year, as determined according to the procedure established by Article 86 or 87 herein;

F shall be the sum total of the tax prepayments due for the year.

(4) "Tax prepayment due," within the meaning given by this Article, shall be:

1. a tax prepayment as determined according to the procedure established by Article 86 or 87 herein: applicable to the tax prepayments before submission of the declaration on reduction of tax prepayments according to the procedure established by Article 88 herein;

2. the reduced tax prepayment as determined by the declaration on reduction of tax prepayments according to the procedure established by Article 88 herein: applicable to the tax prepayments after submission of the declaration on reduction of tax prepayments according to the procedure established by Article 88 herein.

(5) The interest referred to in Paragraph (1) in respect of the relevant tax prepayment shall be determined according to the Interest on Taxes, Fees and Other State Receivables Act and shall be charged as from the date on which the tax prepayment became exigible and until the date of remittance of the annual corporation tax, but not later than the 31st day of March of the next succeeding year.

#### Remittance of Tax Prepayments

Article 90. (1) Monthly tax prepayments shall be remitted on or before the 15th day of the month to which the said prepayments apply.

(2) Quarterly tax prepayments shall be remitted on or before the 15th day of the month next succeeding the quarter to which the said prepayments apply. No quarterly tax prepayment shall be made for the fourth quarter.

#### Retention of Tax Prepayments

Article 91. Any taxable person which is allowed to retain corporation tax for the current year shall furthermore be allowed to retain the relevant portion of the tax prepayments due in proportion to the amount of the retention.

#### Chapter Fifteen

### CORPORATION TAX DECLARING AND REMITTANCE

#### Declaring of Corporation Tax

Article 92. (1) Any taxable persons which are liable to corporation tax shall submit an annual tax return in a standard form regarding the tax financial result and the annual corporation tax due.

(2) The annual tax return shall be submitted on or before the 31st day of March of the next succeeding year at the National Revenue Agency territorial directorate exercising competence over the place of registration of the taxable person.

(3) The annual financial statement, including the notes thereon, shall be submitted together with the annual tax return. Any enterprises whereof the annual financial statements are subject to mandatory financial audit according to the Accountancy Act, shall furthermore submit a copy of the report under the Independent Financial Audit Act. If the independent financial audit has not been completed by the 31st day of March of the next succeeding year, the auditor's report shall be submitted additionally but not later than the 30th day of June of the next succeeding year, together with a copy of the annual financial statement as certified by a registered auditor.

(4) Where any divergence exists between the annual financial statement as submitted and the annual tax return and the annual financial statement as certified by the registered auditor which leads to a change in the tax financial result as already declared, the taxable person shall submit an adjusting return according to the procedure established by Paragraph (2) on or before the 30th day of June of the next succeeding year, declaring inter alia the reasons for the divergences.

(5) A rate rebate of 1 per cent of the annual corporation tax due but not more than BGN 1,000 shall be enjoyable by any taxable person which submits an annual tax return and the annual financial statement thereof on or before the 31st day of March of the next succeeding year by electronic means and which remits the corporation tax on or before the same date.

#### Tax Remittance

Article 93. Any taxable person shall remit the corporation tax for the relevant year on or before the 31st day of March of the next succeeding year after deduction of the tax prepayments remitted for the relevant year.

#### Overremitted Tax

Article 94. (1) Any overremitted corporation tax may be deducted from succeeding tax prepayments and annual payments of the same tax as from the 1st day of January of the year next succeeding the year for which the corporation tax was overremitted.

(2) Where after submission of the annual tax return it is established that the taxable person has groundlessly deducted corporation tax, interest shall be due on any unremitted tax prepayments.

#### Chapter Sixteen

### FINANCIAL INSTITUTIONS

#### Income and Expenses Determined by Regulatory Authority

Article 95. Where there exists any divergence between the amount of income or expenses as accounted for according to the accounting policies of a financial institution and the amount as determined by a regulatory authority according to a statutory instrument, the amount as determined according to the special statutory instrument shall be recognized upon determination of the tax financial result.

#### Income and Expenses from Subsequent Valuations (Revaluations and

#### Impairments) of Financial Assets

Article 96. Any income and expenses from subsequent valuations of financial assets and liabilities, accounted for by financial institutions, shall be recognized for tax purposes in the year of accounting for the said income and expenses. Financial institutions shall not apply Articles 34, 35 and 37 herein in respect of the financial assets and liabilities.

#### Subsequent Valuations of Financial Assets and Liabilities Recognized

#### Directly in Owners' Equity

Article 97. (1) Upon determination of the tax financial result of financial institutions, the accounting financial result thereof shall be credited with any profits from subsequent valuations of financial assets and liabilities, recognized during the current year directly in the owners' equity thereof.

(2) Upon determination of the tax financial result of financial institutions, the accounting financial result thereof shall be debited with any losses from subsequent valuations of financial assets and liabilities, recognized during the current year

directly in the owners' equity thereof.

(3) Upon write-off of any financial assets and liabilities, the cumulative profits and losses from subsequent valuations related thereto, recognized in prior year in the owners' equity and involved upon determination of the tax financial result according to the procedure established by Paragraphs (1) and (2), shall not be recognized for tax purposes.

#### Chapter Seventeen

### SPECIFIC RULES FOR DETERMINATION OF TAX FINANCIAL

### RESULT OF COOPERATIVES

#### Producer and Consumer Dividends

Article 98. (1) "Producer dividends" shall be the amounts which are distributed for output produced by cooperative members and sold to the cooperative. Any such dividends shall be determined on the basis of the profit corresponding to the output sold, whether before or after the processing of the said output.

(2) "Consumer dividends" shall be the amounts which are distributed for consumer goods purchased by cooperative members from the cooperative. Any such dividends shall be determined on the basis of the profit arising from the difference between the selling price, whereat the cooperative has sold the goods, less the distribution costs thereof, and the price paid by the cooperative for acquisition of the said goods.

#### Tax Treatment of Producer and Consumer Dividends

Article 99. (1) Upon determination of the tax financial result, the accounting financial result shall be debited with the producer and consumer dividends paid to cooperative members until the 25th day of March of the next succeeding year, which are covered by the balance-sheet profit. The debiting referred to in sentence one shall be effected up to the amount of the positive accounting financial result.

(2) Any producer and consumer dividends paid to cooperative members shall be accounted for as accounts receivable and shall be excluded upon determination of the accounting financial result.

(3) Where the cooperative has reported, for the relevant year, a balance-sheet loss or a balance-sheet profit insufficient to cover the producer and consumer dividends paid during the year, the amount of the producer and consumer dividends paid during the year and uncovered shall be accounted for as an accounting expense which is not recognized for tax purposes.

#### Chapter Eighteen

### INTRA-COMMUNITY DIVIDENDS

#### Section I

#### Definitions

#### Company of Another Member State

Article 100. "Company of another Member State" shall be any company in respect of which the following conditions are simultaneously fulfilled:

1. the company takes a legal form in accordance with Annex 1 hereto;
2. the company is resident for tax purposes in another Member State of the European Community, according to the relevant tax legislation and by virtue of a convention for the avoidance of double taxation with a third State is not considered to be resident for tax purposes in another State outside the European Community;
3. the profits of the company attract a tax covered under Annex 2 hereto or to a similar profits tax and the company has no option or the possibility of being exempt from the levy of such tax.

#### Resident Parent Company

Article 101. "Resident parent company" shall be any resident commercial corporation or unincorporated association in respect of which the following conditions are simultaneously fulfilled:

1. the profits of the company attract corporation tax;

2. the company has a minimum holding of 15 per cent in the capital of a company of a Member State, inter alia through a permanent established in another Member State of the European Community, for an uninterrupted period of at least two years.

#### Parent Company of Member State

Article 102. "Parent company of a Member State" shall be any company of another Member State of the European Community which has a minimum holding of 15 per cent in the capital of a resident subsidiary, inter alia through a permanent established in another Member State of the European Community, for an uninterrupted period of at least two years.

#### Resident Subsidiary

Article 103. "Resident subsidiary" shall be any resident commercial corporation or unincorporated association in respect of which the following conditions are simultaneously fulfilled:

1. the profits of the company attract corporation tax;

2. a parent company of a Member State has a minimum holding of 15 per cent in the capital of the company for an uninterrupted period of at least two years.

#### Subsidiary of Member State

Article 104. "Subsidiary of a Member State" shall be any company of another Member State of the European Community the capital of which includes a minimum holding of 15 per cent by a resident parent company for an uninterrupted period of at least two years.

#### Section II

#### Tax Treatment upon Distribution of Dividends

##### Dividends Distributed by Subsidiary of Member State

Article 105. (1) Any accounting income charged in a resident parent company as a result of distribution of dividends by a subsidiary of the said company of a Member State shall not be recognized for tax purposes.

(2) The accounting income charged in a permanent establishment in the country as a result of distribution of dividends by non-resident persons shall not be recognized for tax purposes where the following conditions are simultaneously fulfilled:

1. the permanent establishment is of a company of another Member State;

2. the company referred to in Item 1 has, inter alia through the permanent establishment thereof, a minimum holding of 15 per cent in the capital of the non-resident person distributing the dividends for an uninterrupted period of at least two years;

3. the non-resident person distributing the dividends is a company of another Member State.

##### Non-fulfilment of Condition for Exemption from Taxation

Article 106. (1) Where income from dividends has been charged within a period of up to two years from the time of acquisition of a minimum holding of 15 per cent in the capital of a company of a Member State, the taxable person shall have the right not to recognize the said income for tax purposes.

(2) In case the company ceases to have a minimum holding of 15 per cent in the capital before the lapse of the two years, the unrecognized income from dividends referred to in Paragraph (1) shall be considered as being recognized for tax purposes for the year of accounting for the said income. The tax financial result and the corporation tax due for the year of accounting for the dividends shall be adjusted in a way as if the income from dividends were recognized for tax purposes. Default interest shall be due according to the standard procedure for the period commencing on the date on which the

corporation tax was to be remitted and ending on the date of remittance of the said tax.

#### Unrecognized Expenses Related to Unrecognized Income from Dividends

Article 107. Ninety-five per cent of the income from dividends charged shall not be recognized under the terms established by Articles 105 and 106 herein where expenses on management of the investment in the subsidiary of a Member State are recognized for tax purposes.

#### Dividends Distributed by Resident Subsidiary in Favour of Parent Company

##### of Member State

Article 108. (1) Any dividends charged by a resident subsidiary in favour of a parent company of a Member State shall not be subject to levy of a withholding tax.

(2) Any dividends charged by resident legal persons in favour of a permanent establishment in another Member State shall not be subject to levy of a withholding tax according to the procedure established by Part Three herein where the following conditions are simultaneously fulfilled:

1. a tax under Annex 2 hereto or a similar profits tax is levied on the profits from a permanent establishment and the permanent establishment has no option or the possibility of being exempt from the levy of such tax;
2. the permanent establishment is of another resident person or of a company of another Member State;
3. the resident person/company referred to in Item 2 has, inter alia through the permanent establishment, a minimum holding of 15 per cent in the capital of the resident person distributing the dividends for an uninterrupted period of at least two years;
4. the resident persons referred to in Items 2 and 3 are commercial corporations or unincorporated associations and the profits thereof attract corporation tax.

#### Collateral Security

Article 109. (1) Where the provisions of Article 108 herein are applied and the two-year period for having a minimum holding of 15 per cent in the capital has not lapsed at the date of making a decision on distribution of dividend, a tax shall not be withheld at source according to the procedure established by Part Three herein but collateral security shall be furnished to the revenue authority.

(2) Any such collateral security must cover the full amount of the withholding tax due.

(3) Any such collateral security may be created solely by means of a money deposit or a bank guarantee. The said collateral security shall be accepted in Bulgarian leva and no interest shall be payable thereon.

(4) The collateral security shall be released upon fulfilment of the condition referred to in Paragraph (1).

#### Cooperatives

Article 110. The provisions of this Chapter shall furthermore apply, mutatis mutandis, in respect of the cooperatives, the cooperative unions and the enterprises thereof.

#### Tax Evasion

Article 111. The provisions of this Chapter shall not apply in all cases of tax evasion or tax avoidance, inter alia in the cases of hidden profit distribution.

#### Chapter Nineteen

### TRANSFORMATION OF COMPANIES AND COOPERATIVES AND TRANSFER OF ENTERPRISE

#### Section I

#### General Dispositions

#### Applicability

Article 112. The provisions of this Chapter shall apply upon transformation of any companies and cooperatives and upon transfer of an enterprise.

#### Date of Transformation

Article 113. The date of transformation for tax purposes shall be the date of entry of the transformation in the Commercial Register.

#### Last Tax Period upon cessation of transferring company

Article 114. Last Tax Period upon cessation of transferring company shall be the period from the beginning of the year to the date of transformation. For transferring companies which are newly established during the year of transformation, Last Tax Period shall be the period from the date of establishment to the date of transformation.

#### Taxation for Last Tax Period

Article 115. (1) The transferring companies and the permanent establishments of non-resident persons shall be subject to corporation tax for the last tax period according to the standard procedure established by this Act. The taxation shall be final.

(2) For tax purposes, the assets and liabilities available at the date of transformation shall be considered as having been sold at market prices and shall be written off.

(3) Upon determination of the tax financial result, the accounting financial result shall be credited with the profit and shall be debited with the loss arrived at as a difference between the market price of the asset or liability and the accounting value thereof at the date of transformation. Any temporary tax differences related to the asset or liability shall be recognized during the last tax period according to the standard procedure established by this Act. Article 66 (1) and (2) herein shall apply upon determination of the tax financial result.

(4) Paragraphs (2) and (3) shall not apply upon transformation under the terms and according to the procedure established by Sections II and III herein.

#### Tax Treatment of Transformation through Change of Legal Form

Article 116. (1) Articles 115 and 117 herein shall not apply in the cases of transformation through change of the legal form under Article 264 of the Commerce Act . The newly formed company shall assume all obligations for determination of the tax financial result and remittance of the corporation tax due for the full year of transformation.

(2) For tax purposes, all rights and obligations arising from any acts performed by the transferring company for the current and prior periods, including the adjustments of the tax financial results, shall be considered as having been performed by the newly formed company.

#### Declaring and Remittance of Tax for Last Tax Period

Article 117. (1) The newly formed companies or the acquiring companies shall submit a tax return on the corporation tax for the last tax period of the transferring company within thirty days after the date of transformation.

(2) The corporation tax for the last tax period shall be remitted by the newly formed companies or the acquiring companies within thirty days after the date of transformation after deduction of the tax prepayments made.

#### Tax Prepayments by Acquiring Companies or Newly Formed Companies

Article 118. (1) After the transformation, the acquiring companies or the newly formed companies shall make quarterly tax prepayments in the year of transformation.

(2) Upon transformation through change of the legal form under Article 264 of the Commerce Act , the newly formed company shall make monthly or quarterly tax prepayments according to the standard procedure established by this Act on the basis of the tax financial result of the transferring company.

#### Carry-Forward of Tax Loss upon Transformation and Transfer

of Enterprise

Article 119. (1) Upon transformation under the Commerce Act , the acquiring companies or newly formed companies may not carry forward any tax losses formed by the transferring companies.

(2) Upon sale of an enterprise under Article 15 of the Commerce Act , the transferee may not carry forward any tax losses formed by the transferor.

(3) Paragraph (1) shall not apply upon transformation through change of the legal form under Article 264 of the Commerce Act .

#### Regulation of Thin Capitalization

Article 120. (1) Upon transformation under the Commerce Act , the acquiring companies or newly formed companies may not recognize for tax purposes any unrecognized expenses on interest payments in the transferring companies resulting from application of the thin capitalization regime.

(2) Upon sale of an enterprise under Article 15 of the Commerce Act , the transferee may not recognize for tax purposes any unrecognized expenses on interest payments at the transferor resulting from application of the thin capitalization regime.

(3) Paragraph (1) shall not apply upon transformation through change of the legal form under Article 264 of the Commerce Act .

#### Expenses on Conduct of Transformation

Article 121. (1) The accounting expenses incurred in connection with the transformation shall not be recognized for tax purposes at the transferring company. The unrecognized expenses shall be recognized for tax purposes upon determination of the tax financial result of the acquiring company or the newly formed company in the year during which the transformation was implemented.

(2) Where any circumstances occur determining that the transformation will not be implemented, the expenses referred to in Paragraph (1) shall be recognized for tax purposes at the transferring companies in the year of occurrence of the said circumstances, if the requirements of this Act are complied with.

#### Tax Treatment upon Opting for Earlier Date of Transformation for

##### Accounting Purposes

Article 122. (1) Upon opting for an earlier date of transformation for accounting purposes according to the procedure established by Article 263g (2) of the Commerce Act , all acts performed by the newly formed companies or acquiring companies as from the said date and until the date of transformation for tax purposes shall be considered as having been performed by the transferring companies.

(2) In the cases referred to in Paragraph (1), all accounting income and expenses, profits and losses, accounted for by the newly formed companies or acquiring companies shall be recognized for tax purposes at the transferring company. The said income and expenses, profits and losses shall not be recognized for tax purposes at the newly formed companies or acquiring companies.

(3) The adjustments upon determination of the tax financial result, resulting from any acts referred to in Paragraph (1), shall be performed by the transferring companies.

#### Cooperative Organizations and State-Owned Enterprises

Article 123. The provisions of this Chapter in respect of the transformation of commercial corporations shall furthermore apply in the cases of:

1. restructuring of cooperative organizations;
2. dissolution, closure or formation of state-owned enterprises within the meaning given by Article 62 (3) of the Commerce Act under conditions of universal succession.

#### Liability upon Transformation and Restructuring



Article 124. (1) Upon transformation of commercial corporations or upon restructuring of cooperative organizations, the newly formed or acquiring companies/cooperative organizations shall incur solidary liability for the tax liabilities of the transferring companies or cooperative organizations up to the extent of the rights received.

(2) Upon transfer of an enterprise under Article 15 of the Commerce Act , the transferee shall incur solidary liability for the tax liabilities of the transferor up to the extent of the rights received.

(3) The rights received shall be valued at market prices.

## Section II

### Specific Regime of Taxation upon Transformation

#### Applicability

Article 125. (1) This Section shall apply upon merger by acquisition, merger by the formation of a new company, division, partial division, transfer of assets and exchange of shares or interests within the meaning given by Articles 126 to 131 herein, concerning resident companies and/or companies from another Member State of the European Community.

(2) This Section shall furthermore apply, *mutatis mutandis*, in the cases of restructuring of cooperative organizations, including such of other Member States of the European Community, where the conditions specified therein exist.

#### Merger by Acquisition

Article 126. (1) "Merger by acquisition" shall be any transformation in respect of which the following conditions are simultaneously fulfilled:

1. all assets and liabilities of one or more transferring companies are transferred to another existing acquiring company, the transferring companies being dissolved without going into liquidation;

2. the shareholders or members of the transferring companies are issued shares or interests in the acquiring company.

(2) "Merger by acquisition" shall furthermore be any transformation whereupon all assets and liabilities of a transferring company are transferred to an acquiring company holding all shares or interests in the transferring company, and the transferring company is dissolved without going into liquidation.

#### Merger by Formation of New Company

Article 127. "Merger by the formation of a new company" shall be any transformation in respect of which the following conditions are simultaneously fulfilled:

1. all assets and liabilities of two or more transferring companies are transferred to a newly formed company, the transferring companies being dissolved without going into liquidation;

2. the shareholders or members of the transferring companies are issued shares or interests in the newly formed company.

#### Division

Article 128. "Division" shall be any transformation in respect of which the following conditions are simultaneously fulfilled:

1. all assets and liabilities of a transferring company are transferred to two or more existing or newly formed companies, the transferring company being dissolved without going into liquidation;

2. the shareholders or members of the transferring company are issued shares or interests in each of the existing or newly formed companies, in proportion to the shares or interests held by the shareholders or members in the transferring company.

#### Partial Division

Article 129. "Partial division" shall be any transformation in respect of which the following conditions are

simultaneously fulfilled:

1. one or more branches of activity of a transferring company is transferred to one or more existing or newly formed companies, without the transferring company being dissolved and leaving therein at least one branch of activity;
2. the shareholders or members of the transferring company are issued shares or interests in the existing or newly formed companies in proportion to the shares or interests held thereby in the transferring company.

#### Transfer of Assets

Article 130. "Transfer of assets" shall be a transformation whereupon one, more or all branches of activity of a transferring company are transferred to one or more existing or newly formed companies in exchange for shares or interests issued by the existing or newly formed companies in favour of the transferring company, without the transferring company being dissolved.

#### Exchange of Shares or Interests

Article 131. "Exchange of shares or interests" shall be any transformation in respect of which the following conditions are simultaneously fulfilled:

1. as a result of the transformation, the acquiring company holds more than one-half of the voting shares or of the interests in the acquired company or, if already having such holding in the capital, acquires a further holding in the shares or interests;
2. the shareholders or members of the acquired company exchange the shares or interests thereof for the issue of shares or interests in the acquiring company.

#### Additional Cash Payments and Non-Issue of Shares or Interests

Article 132. (1) In the cases of merger by acquisition, merger by the formation of a new company, division, partial division, transfer of assets and exchange of shares or interests, for the purpose of achieving a parity of exchange, cash payments not exceeding 10 per cent of the nominal value of the shares or interests issued as a result of the transformation may be effected to the shareholders or members of the transferring companies or acquired companies.

(2) In the cases of merger by acquisition, merger by the formation of a new company and partial divisions, shares or interests need not be issued where this is admissible by the Commerce Act .

#### Issue of Shares or Interests

Article 133. Within the meaning given by this Chapter, issue of shares or interests shall be in place where newly issued or held own shares or interests are provided by a newly formed, receiving or acquiring company.

#### Branch of Activity

Article 134. "Branch of activity" shall be the totality of assets and liabilities of a company which, from an organizational, functional and financial point of view, constitute an independent business.

#### Transferring Companies

Article 135. "Transferring companies," within the meaning given by this Section, shall be:

1. a resident transferring company;
2. a transferring company from another Member State of the European Community;
3. a permanent establishment in the country of a transferring company from another Member State of the European Community.

#### Receiving Companies

Article 136. "Receiving companies," within the meaning given by this Section, shall be:

1. a resident newly formed or receiving company;

2. a newly formed or receiving company from another Member State of the European Community;

3. a permanent establishment in the country of a newly formed or receiving company from another Member State of the European Community.

#### Company from Another Member State of the European Community

Article 137. "Company from another Member State of the European Community," within the meaning given by this Section, shall be any company which simultaneously fulfils the following conditions:

1. the company takes a legal form in accordance with Annex 3 hereto;

2. the company is resident for tax purposes in another Member State of the European Community, according to the relevant tax legislation and by virtue of a convention for the avoidance of double taxation with a third State is not considered to be resident for tax purposes in another State outside the European Community;

3. the profits of the company are subject to a tax covered under Annex 4 hereto or to a similar profits tax and the company has no option or the possibility of being exempt from the levy of such tax.

#### Legal Succession

Article 138. For the purposes of this Section, upon transformation all rights and obligations arising from any acts performed by the transferring companies for the current period and the prior periods in respect of the assets and liabilities transferred under Item 1 of Article 139 herein, including the adjustments upon determination of the tax financial result, shall pass to the receiving companies.

#### Assets and Liabilities Subject to Transformation

Article 139. The assets and liabilities subject to transformation under this Section shall be allocated to the following categories:

1. assets and liabilities whereof the results of exploitation before and after the transformation are involved upon determination of the tax financial result under this Act;

2. assets and liabilities whereof the results of exploitation before the transformation were involved and, as a result of the transformation, cease to be involved upon determination of the tax financial result under this Act;

3. assets and liabilities whereof the results of exploitation before the transformation were not involved and, as a result of the transformation, become involved upon determination of the tax financial result under this Act.

#### Assets and Liabilities Transferred under Item 1

##### of Article 139 Herein

Article 140. (1) The accounting profits or losses originating upon write-off of any assets and liabilities referred to in Item 1 of Article 139 herein as a result of the transformation shall not be recognized for tax purposes.

(2) The temporary tax differences related to any assets and liabilities referred to in Item 1 of Article 139 herein, which have originated before the transformation, shall not be recognized for tax purposes at the time of transformation and shall be considered as having originated at the receiving companies.

(3) Where any asset or liability is recognized according to accounting legislation at the receiving company at a value diverging from the pre-transformation value of the said asset or liability, the difference between the two values shall form a temporary tax difference from a subsequent valuation or the temporary tax difference referred to in Paragraph (2) shall be adjusted thereby.

(4) The subsequent valuations reserve (revaluation reserve) in respect of any assets referred to in Item 1 of Article 139 herein, which are not tax depreciable assets, shall be transferred by the transferring company and shall be considered as having originated at the receiving company. The transferring company shall not apply Article 45 herein.

(5) Any tax depreciable assets acquired under Item 1 of Article 139 herein shall be posted in the tax depreciation

schedule of the receiving company at values equal to the values of the said assets in the tax depreciation schedule of the transferring company at the time of transformation.

(6) Upon transformation of each asset or liability referred to in Item 1 of Article 139 herein other than such specified in Paragraph (5), a statement shall be prepared according to the procedure established by Article 141 herein.

#### Statements of Assets and Liabilities Referred to in

##### Item 1 of Article 139 Herein

Article 141. (1) The statement referred to in Article 140 (6) herein, prepared by the transferring companies, shall contain the following information on each asset and liability as at the date of transformation:

1. type and designation;
2. accounting value;
3. temporary tax difference.

(2) A copy of the statement referred to in Paragraph (1) as prepared shall be delivered to the receiving companies and to the revenue authority not later than at the end of the month next succeeding the month of transformation.

(3) In the cases referred to in Article 140 (3) herein, a new statement shall be prepared by the receiving companies and a copy of the said statement shall be delivered to the revenue authority together with the annual tax return. The said statement shall contain the following information on each asset and liability:

1. type and designation;
2. accounting value;
3. pre-transformation temporary tax difference;
4. post-transformation temporary tax difference, determined according to the procedure established by Article 140 (3) herein.

(4) Where the values of the assets and liabilities are adjusted according to accounting legislation as a result of the transformation after submission of the statement referred to in Paragraph (3), the receiving company shall prepare an adjusting statement. The adjusting statement shall be delivered to the revenue authority not later than at the end of the month next succeeding the month of occurrence of the circumstances necessitating the adjustment.

(5) The statements referred to in Paragraphs (1) and (3) shall indicate data identifying the transferring companies and receiving companies, as well as the date of transformation and the judgment of court on entry of the said transformation.

#### Assets and Liabilities Transferred under Item 2

##### of Article 139 Herein

Article 142. (1) The accounting profits or losses originating upon write-off of any assets and liabilities referred to in Item 2 of Article 139 herein, related to a permanent establishment of a resident company in another Member State of the European Community, shall not be recognized for tax purposes.

(2) The temporary tax differences related to any assets and liabilities referred to in Paragraph 1 herein, shall not be recognized for tax purposes at the time of transformation and during the succeeding years.

(3) For tax purposes, outside the cases referred to in Paragraph (1), the assets and liabilities referred to in Item 2 of Article 139 herein, available at the date of transformation, shall be considered as having been sold at market prices and shall be written off.

(4) In the cases referred to in Paragraph (3), upon determination of the tax financial result, the accounting financial

result shall be credited with the profit and shall be debited with the loss arrived at as a difference between the market price of the asset or liability and the accounting value thereof at the date of transformation. Any temporary tax differences related to the asset or liability shall be recognized during the last tax period according to the standard procedure established by this Act. Article 66 (1) and (2) herein shall apply upon determination of the tax financial result.

#### Assets and Liabilities Transferred under Item 3

of Article 139 Herein

Article 143. (1) The assets and liabilities referred to in Item 3 of Article 139 herein shall be valued for tax purposes at the receiving companies at the value of the said assets and liabilities determined according to national accounting legislation.

(2) The tax depreciable assets referred to in Item 3 of Article 139 herein shall be posted in the tax depreciation schedule according to the standard procedure established by this Act.

#### Carry-Forward of Tax Losses

Article 144. (1) Upon transformation under this Section, the receiving companies shall not have the right to carry forward the tax losses formed by the transferring companies.

(2) Paragraph (1) shall not apply in the cases of merger by acquisition or merger by the formation of a new company under this Section, as a result of which a permanent establishment of a company from another Member State of the European Community commences the legal existence thereof in the country and the said company has not had a permanent establishment in the country before the transformation.

#### Tax Losses by Permanent Establishment

Article 145. (1) Any tax losses not carried forward at the time of transformation, formed by a permanent establishment of a resident company in another Member State of the European Community, shall not be deducted.

(2) Upon determination of the tax financial result, the accounting financial result shall be credited with the tax losses carried forward at the time of transformation, formed by a permanent establishment of a resident company in another Member State of the European Community, which have not been deducted from the profits of the permanent establishment.

#### Regulation of Thin Capitalization

Article 146. (1) Upon transformation under this Section, the receiving companies shall not have the right to recognize for tax purposes any unrecognized expenses on interest payments in the transferring companies resulting from application of the thin capitalization regime.

(2) Paragraph (1) shall not apply in the cases of merger by acquisition or merger by the formation of a new company under this Section, as a result of which a permanent establishment of a company from another Member State of the European Community commences the legal existence thereof in the country and the said company has not had a permanent establishment in the country before the transformation.

#### Tax Prepayments by Receiving Companies

Article 147. (1) After transformation under this Section, the receiving companies shall make quarterly tax prepayments in the year of transformation.

(2) In the cases referred to in Article 144 (2) herein, the receiving companies shall make monthly or quarterly tax prepayments according to the standard procedure established by this Act on the basis of the tax financial result of the transferring companies.

#### Write-Off of Holding

Article 148. (1) Where a receiving company has a holding in the capital of a transferring company, the accounting profits or losses in connection with the write-off of the said holding in the capital shall not be recognized for tax purposes.

(2) The income referred to in Paragraph (1) shall not be subject to levy of a tax withheld at source according to the procedure established by Part Three herein.

#### Tax Treatment of Shareholders of Members of Transferring Companies and

## Acquired Companies

Article 149. (1) The accounting profits or losses originating at shareholders or members of transferring companies or acquired companies as a result of an acquisition of shares or interests in receiving or acquiring companies shall not be recognized for tax purposes in the year of accounting for the said profits or losses and shall form a temporary tax difference from a subsequent valuation.

(2) The temporary tax differences, originating at the shareholders or members before the transformation, which are related to the written off shares or interests in the transferring companies or acquired companies, shall not be recognized for tax purposes at the time of transformation.

(3) The temporary tax differences referred to in Paragraphs (1) and (2) shall be considered as having originated in respect of the newly acquired shares or interests and shall be recognized according to the standard procedure established by this Act.

(4) The income accruing to any non-resident legal persons which are shareholders or members of resident transferring or acquired companies from acquisition of shares or interests as a result of transformation shall be taxed or shall be exempted from tax withheld at source according to the standard procedure established by this Act at the date of transformation.

(5) The tax withheld at source referred to in Paragraph (4) shall be due from the shareholder or member upon disposition in any form whatsoever of the newly acquired shares or interests and shall be remitted within sixty days after any such disposition.

(6) On or before the 31st day of January of the relevant year, the non-resident legal persons referred to in Paragraphs (4) and (5) shall submit a declaration in a standard form to the Sofia Territorial Directorate of the National Revenue Agency, certifying thereby that the said persons have not disposed of the shares or interests newly acquired as a result of the transformation. Any such persons shall submit the declaration referred to in sentence one annually, until the year of disposition of the newly acquired shares or interests.

(7) Upon failure to submit the declaration referred to in Paragraph (6) when due, in addition to becoming liable to the administrative sanction, for the purposes of this Act the non-resident legal person shall furthermore be presumed to have disposed of the newly acquired shares or interests.

## Taxation of Transferring Company upon Transfer of Assets

Article 150. (1) The accounting profits or losses originating at a transferring company as a result of a transfer of assets shall not be recognized for tax purposes in the year of accounting for the said profits or losses and shall form a temporary tax difference from a subsequent valuation.

(2) The temporary tax difference referred to in Paragraph (1) shall be considered as having originated in respect of the newly acquired shares or interests and shall be recognized for tax purposes according to the standard procedure established by the Act.

(3) Where the shares or interests referred to in Paragraph (1) are held by the transferring company for an uninterrupted period of at least five years, the temporary tax difference referred to in Paragraph (1) shall not be recognized for tax purposes at the time of transformation and during the succeeding years.

## Tax Evasion

Article 151. The provisions of this Section shall not apply where the transformation has as its objective tax evasion or tax avoidance. Tax evasion shall be presumed, inter alia, where the transformation is not carried out for valid commercial reasons or where the said transformation conceals the disposition of assets.

## Section III

### Transfer of Registered Office of European Company or European

### Cooperative Society

## Applicability

Article 152. Within the meaning given by this Chapter, "transfer of the registered office of a European company or a European cooperative society" shall be an operation whereby:

1. the company, without being dissolved or without incorporation of a new legal person, transfers the registered office thereof from the country to another Member State of the European Community, according to Article 8 of Council Regulation (EC) No 2157/2001 or according to Council Regulation (EC) No 1435/2003, while the assets and liabilities of the company must remain effectively connected with the permanent establishment in the country and the results of exploitation of the said assets must be involved upon determination of the tax financial result, or

2. the company, without being dissolved or without incorporation of a new legal person, transfers the registered office thereof from another Member State of the European Community to the country according to Article 8 of Council Regulation (EC) No 2157/2001 or according to Council Regulation (EC) No 1435/2003, while the assets and liabilities of the company must remain effectively connected with the company which commences the legal existence thereof as a result of this operation, and the results of exploitation of the said assets must be involved upon determination of the tax financial result.

## Legal Succession

Article 153. (1) For tax purposes, upon transfer of the registered office of a European company or a European cooperative society under the terms established by Item 1 of Article 152 herein:

1. all acts performed by the said company for the current period and the prior periods, including the adjustments of the tax financial result, shall be considered as having been performed by the permanent establishment;

2. corporation tax shall not be levied on the company for the period from the beginning of the year until the date of the operation;

3. corporation tax shall not be levied on the permanent establishment for the period commencing at the beginning of the year according to the standard procedure, and the activity carried out by the company in the year of the operation shall be considered as having been carried out by the permanent establishment;

4. the permanent establishment shall have the right to carry forward any tax losses not carried forward and formed by the company according to the standard procedure.

(2) For tax purposes, upon transfer of the registered office of a European company or a European cooperative society under the terms established by item 2 of Article 152 herein:

1. all acts performed by the said permanent establishment for the current period and the prior periods, including the adjustments of the tax financial result, shall be considered as having been performed by the company;

2. corporation tax shall not be levied on the permanent establishment for the period from the beginning of the year until the date of the operation;

3. corporation tax shall not be levied on the company for the period commencing at the beginning of the year according to the standard procedure, and the activity carried out by the permanent establishment in the year of the operation shall be considered as having been carried out by the company;

4. the company shall have the right to carry forward any tax losses not carried forward and formed by the permanent establishment according to the standard procedure.

## Provisions Applicable upon Transfer of Registered Office

Article 154. The provisions of Section II of this Chapter in respect of the assets and liabilities, profits and losses and temporary tax differences shall furthermore apply upon a transfer of the registered office of a European company or a European cooperative society.

## SPECIFIC RULES FOR DETERMINATION OF TAX FINANCIAL RESULT UPON TRANSFERS

### BETWEEN PERMANENT ESTABLISHMENT IN COUNTRY AND ANOTHER DIVISION OF SAME

### ENTERPRISE SITUATED OUTSIDE COUNTRY

#### Income from Transfer to Another Division of Enterprise

Article 155. (1) The accounting income, accounted for at market value and originating upon a transfer from a permanent establishment in the country to another division of the same enterprise situated outside the country, shall be recognized for tax purposes where:

1. the particular transfer coincides with the ordinary transactions of the said permanent establishment with third parties,  
or
2. the ordinary activity of the said permanent establishment consists in similar transfers to the other divisions of the enterprise.

(2) Any accounting income arising from cash resources provided by the permanent establishment to another division of the same enterprise situated outside the country shall not be recognized for tax purposes with the exception of financial institutions for which raising of cash resources and extending of loans is a core activity.

(3) Any accounting expense related to a transfer from a permanent establishment to another division of the same enterprise situated outside the country shall not be recognized for tax purposes where accounting income, which is recognized for tax purposes, does not arise at the said permanent establishment as a result of the transfer. Where, as a result of a transfer to another division of the same enterprise, situated outside the country, the permanent establishment charges accounting income at the amount of the costs actually incurred (at cost price), the accounting expenses charged in connection with the said transfer shall be recognized for tax purposes.

#### Expenses upon Transfer from Another Part of Enterprise

Article 156. (1) Any accounting expenses accounted for at market value in connection with any goods, services and rights which are the result of a transfer from another division of the same enterprise, situated outside the country, shall be recognized for tax purposes in the permanent establishment in the country where the said expenses are accounted for within the ordinary activity of the permanent establishment related to a sale of the transferred goods, services or rights in an altered or unaltered state.

(2) Any accounting expenses, accounted for at market value and originating upon transfer of any goods and services from another division of the same enterprise, situated outside the country, to a permanent establishment in the country, shall be recognized for tax purposes in the permanent establishment where:

1. the particular transfer coincides with the ordinary transactions of the said division of the enterprise with third parties,  
or
2. the ordinary activity of the said division of the enterprise consists in similar transfers to the other divisions of the enterprise.

(3) Any accounting expenses accounted for according to the costs actually incurred (cost price) and originating upon transfer of any services from another division of the same enterprise situated outside the country, outside the cases referred to in Paragraphs (1) and (2), shall be recognized for tax purposes in the permanent establishment in the country. Sentence one shall furthermore apply in respect of the administrative management services received in direct connection with the permanent establishment.

(4) Any accounting expenses, accounted for at costs actually incurred (cost price) and originating upon transfer of rights related to know-how, patents and other items of intellectual or industrial property, from another division of the same enterprise situated outside the country, outside the cases referred to in Paragraph (1), shall be recognized for tax purposes in the permanent establishment in the country. Where the said items are produced or acquired by the branch of activity of the enterprise which transfers the said items and which specialized in the creation or acquisition of any such items, the



accounting expenses, accounted for at market value, shall be recognized for tax purposes.

(5) Where the rights transferred under Paragraph (4) satisfy the criteria for a tax intangible fixed asset, the expenses on the acquisition thereof under Paragraph (4) shall not be recognized for tax purposes and the amounts shall be posted in the tax depreciation schedule. The tax depreciable value of the said rights shall be determined according to the standard procedure established by this Act.

(6) Any accounting expenses arising from cash resources received in the permanent establishment from another division of the same enterprise situated outside the country shall not be recognized for tax purposes with the exception of:

1. the financial institutions, for which raising of cash resources and extending of loans is a core activity, or

2. the cases in which the cash resources are provided by a third party as an interest-bearing loan for the purposes of the permanent establishment and are used exclusively in the activity of the permanent establishment; in such case, the accounting expenses accounted for at the amount of the interest payments due to the third party shall be recognized for tax purposes upon compliance with the other provisions of this Act.

Treatment of Assets upon Transfer from or to

Another Part of Enterprise

Article 157. (1) Any assets provided to the permanent establishment in the country by another division of the same enterprise situated outside the country, which are related to the activity of the permanent establishment, outside the cases referred to in Article 156 (1) herein, shall be valued for tax purposes at the costs actually incurred (cost price) by the division of the enterprise transferring the said assets. The tax depreciable assets referred to in sentence once, which are used in the activity of the permanent establishment for a period of at least two years, shall be posted in the tax depreciation schedule according to the standard procedure established by this Act.

(2) Where the tax depreciable assets referred to in Paragraph (1) are provided for temporary use for a period not exceeding two years, the permanent establishment in the country shall be recognized, for tax purposes, the accounting expenses charged to the amount of the depreciations charged by the transferring division of the enterprise for the said assets. The expenses charged may not exceed the annual tax depreciation which would have been charged if the maximum permissible annual rates of tax depreciation under Article 55 herein were used.

(3) For tax purposes, the assets transferred shall be considered as having been sold at market prices at the time of transfer of assets manufactured or acquired by the permanent establishment in the country to another division of the enterprise situated outside the country and shall be written off.

(4) In the cases referred to in Paragraph (3), upon determination of the tax financial result, the accounting financial result of the permanent establishment shall be credited with the profit and shall be debited with the loss arrived at as a difference between the market price of the asset and the accounting value thereof at the date of transfer. The temporary tax differences related to the said asset shall be recognized according to the standard procedure established by this Act. Article 66 (1) and (2) herein shall apply upon determination of the tax financial result.

(5) Paragraphs (3) and (4) shall not apply where accounting income (profit) or costs (losses) originate from the transfer of the assets. The standard procedure established by this Act shall apply in such cases.

Chapter Twenty-One

TAX REGULATION UPON DISSOLUTION THROUGH LIQUIDATION OR THROUGH

ADJUDICATION IN BANKRUPTCY AND UPON DISTRIBUTION OF SHARE IN LIQUIDATION

SURPLUS

Section I

General Dispositions

## General Dispositions

Article 158. Upon dissolution through liquidation or through adjudication in bankruptcy, for the period until the expungement thereof, the taxable person shall fulfil the obligations thereof according to the standard procedure established by this Act and in compliance with the requirements of this Chapter, inter alia submitting the requisite financial statements, which shall be prepared and presented according to accounting legislation.

## Section II

### Corporation Tax upon Dissolution

#### Assessment of Tax upon Dissolution

Article 159. (1) Corporation tax shall be due at the date of entry of the dissolution in the Commercial Register.

(2) The corporation tax referred to in Paragraph (1) shall be assessed on the basis of the tax profit for the period from the beginning of the year until the date of entry of the dissolution.

(3) The prepayments remitted since the beginning of the year and until the date of entry of the dissolution shall be deducted upon assessment of the tax.

#### Remittance of Tax upon Dissolution

Article 160. (1) The corporation tax due under Article 159 herein shall be remitted within thirty days after the date of entry of the dissolution.

(2) The corporation tax remitted upon dissolution shall be deducted from the annual corporation tax due for the year of dissolution or from the corporation tax due for the last tax period, where the date of submission of the motion for expungement upon liquidation or the date of expungement upon bankruptcy, as the case may be, is in one and the same year as the date of dissolution.

(3) Where the date of dissolution and the date of submission of the motion for expungement upon liquidation, or the date of dissolution upon bankruptcy, as the case may be, are in different years, the financial statement prepared as at the date of dissolution and the financial statement prepared as at the 31st day of December of the year of dissolution of the taxable person shall be submitted with the annual tax return on the year of dissolution.

## Section III

### Corporation Tax on Last Tax Period

#### Last Tax Period

Article 161. (1) The last tax period of any taxable person dissolved through liquidation shall commence on the 1st day of January of the year in which the motion for expungement under Article 273 (1) of the Commerce Act was submitted and shall end on the date of submission of the said motion.

(2) The last tax period of any taxable person dissolved through adjudication in bankruptcy shall commence on the 1st day of January of the year in which the expungement was effected and shall end on the date of expungement.

(3) The last tax period of any permanent establishment of a non-resident person shall commence on the 1st day of January of the year in which the activity of the said establishment was discontinued and shall end on the date of discontinuance of the said activity.

(4) The taxable person shall be liable to corporation tax in respect of the tax profit realized during the last tax period according to the standard procedure established by this Act. The corporation tax due shall be final.

(5) For tax purposes, the assets manufactured or acquired by the permanent establishment in the country at the date of dissolution shall be considered as having been sold at market prices and shall be written off. Upon determination of the tax financial result for the last tax period of the permanent establishment, the tax financial result shall be credited with the profit and shall be debited with the loss arrived at as a difference between the market price of the assets referred to in sentence one and the accounting value of the said assets at the date of transformation. The temporary tax differences related to the

asset shall be recognized during the last tax period according to the standard procedure established by this Act. Article 66 (1) and (2) herein shall apply upon determination of the tax financial result.

#### Declaring of Tax on Last Tax Period

Article 162. (1) The tax return on the last tax period, determined under Article 161 (1) herein, shall be submitted on the date of submission of the motion for expungement together with a copy of the said motion.

(2) The tax return on the last tax period, as determined under Article 161 (2) herein, shall be submitted by the holder of the position of trustee in bankruptcy within thirty days after the date of expungement of the taxable person together with a copy of the judgement of court on the expungement.

(3) The tax return on the last tax period, as determined under Article 161 (3) herein, shall be submitted on the date of discontinuance of the activity.

(4) Where the date of submission of the motion for expungement upon liquidation or the date of expungement upon bankruptcy, as the case may be, or the discontinuance of the activity of a permanent establishment is before the 31st day of March and the annual tax return for the last preceding year has not been submitted, the taxable person or the holder of the position of trustee in bankruptcy shall submit the said return within the time limits referred to in Paragraphs (1), (2) and (3).

(5) Where the date of dissolution and the date of submission of the motion for expungement upon liquidation, or the date of expungement upon bankruptcy, as the case may be, are in one and the same year, the financial statement prepared at the date of dissolution and the financial statement prepared at the date of submission of the motion for expungement or at the date of expungement, as the case may be, shall be submitted with the tax return referred to in Paragraphs (1) and (2).

#### Remittance of Tax on Last Tax Period

Article 163. (1) The corporation tax due on the last tax period, determined under Article 161 (1) herein, shall be remitted on or before the date of submission of the motion for expungement of the taxable person. The said tax shall be final.

(2) In the cases referred to in Article 161 (2) herein, the corporation tax due on the last tax period shall be remitted on or before the date of expungement.

(3) In the cases referred to in Article 161 (3) herein, the corporation tax due on the last tax period shall be remitted on or before the date of discontinuance of activity. The said tax shall be final.

(4) Where the date of submission of the motion for expungement upon liquidation or the date of expungement upon bankruptcy or the discontinuance of activity of a permanent establishment is before the 31st day of March and the corporation tax for the preceding year has not been remitted, the taxable person shall remit the corporation tax for the preceding year within the time limits referred to in Paragraphs (1), (2) and (3).

#### Tax Treatment upon Continuation of Activity after Date of Submission of

##### Motion for Expungement by Taxable Person Dissolved through Liquidation

Article 164. (1) Any taxable person, dissolved through liquidation, which continues the activity thereof after submission of a motion for expungement, shall fulfil the obligations thereof according to the standard procedure established by this Act for the period from the date of submission of the motion for expungement until the date of expungement, inter alia declaring and remitting the corporation tax due. The liquidator shall incur solidary liability with the taxable person for the tax liabilities of the said person which have arisen in connection with the continuation of activity.

(2) The last period for tax purposes in the cases referred to in Paragraph (1) shall commence on the 1st day of January of the year in which the expungement was effected and shall end on the date of expungement or shall commence on the date of submission of the motion for expungement and shall end on the date of expungement, when the said two dates are in one and the same year.

(3) The taxable person shall be liable to corporation tax in respect of the tax profit realized during the last tax period under Paragraph (2) according to the standard procedure established by this Act. The said tax shall be final.

(4) The tax return on the last period for tax purposes in the cases referred to in Paragraph (1) shall be submitted by the holder of the position of liquidator within thirty days after the date of expungement of the taxable person together with a copy of the judgment of court on the expungement. Where the date of expungement is before the 31st day of March and the annual tax return on the preceding year has not been submitted, the holder of the position of liquidator shall submit the said return within the time limit referred to in sentence one.

(5) The corporation tax due for the last period for tax purposes in the cases referred to in Paragraph (1) shall be remitted on or before the date of expungement. Where the date of expungement is before the 31st day of March and the corporation tax for the preceding year has not been remitted, the taxable person shall remit the corporation tax for the preceding year within the time limit referred to in sentence one.

#### Tax Treatment upon Distribution of Share in Liquidation Surplus

Article 165. (1) The assets distributed as a share in a liquidation surplus at the time of distribution for tax purposes shall be considered as having been sold by the taxable person at market prices and shall be written off.

(2) In the cases referred to in Paragraph (1), upon determination of the tax financial result, the accounting financial result shall be credited with the profit and shall be debited with the loss arrived at as a difference between the market price of the assets and the accounting value thereof at the date of distribution of the share in a liquidation surplus. The temporary tax differences related to the said assets shall be recognized according to the standard procedure established by the Act. Article 66 (1) and (2) herein shall apply upon determination of the tax financial result.

(3) Any accounting income and expenses, accounted for in connection with the distribution of a share in a liquidation surplus in the form of assets, shall not be recognized for tax purposes.

#### Chapter Twenty-Two

### REDUCTION, RETENTION AND EXEMPTION FROM LEVY OF CORPORATION TAX

#### Section I

#### General Dispositions

#### Concept of Retention

Article 166. "Corporation tax retention" shall be the right of any taxable person not to remit to the executive budget the amounts of corporation tax as assessed according to the procedure established by this Act, which subsist in the patrimony of the taxable person and are spent for purposes prescribed by a law.

#### General Requirement for Corporation Tax Retention or Reduction

Article 167. (1) Corporation tax shall be retained or reduced and, respectively, the accounting financial result shall be debited according to the procedure established by this Chapter, subject to the condition that the taxable person does not incur at the 31st day of December of the relevant year:

1. any coercively enforceable public obligations, and
2. any obligations for sanctions under effective penalty decrees related to violation of statutory instruments regarding public obligations, and
3. any interest payments in connection with a failure to remit the obligations referred to in Items 1 and 2 when due.

(2) Fulfillment of the requirement covered under Paragraph (1) shall be certified by the taxable person in the annual tax return.

#### Accounting for Retained and Reduced Corporation Tax

Article 168. (1) The retained corporation tax and the corporation tax reduction according to the procedure established by this Chapter shall be accounted for in owners' equity.

(2) The taxable persons applying the National Financial Reporting Standards for Small and Medium-Sized Enterprises shall account for the retained corporation tax and the corporation tax reduction as reserves.

### Partial Recognition of Undistributable Income or Expenses

Article 169. (1) The portion of the undistributable income or expenses, corresponding to the activities in respect of which the corporation tax retention is enjoyed, shall be arrived at by multiplying the total amount of the undistributable income or expenses by the proportion of the net sales accruing from the activities in respect of which the corporation tax retention is enjoyed and all net sales.

(2) The undistributable amounts whereby the accounting financial result is adjusted, which cannot be related to any single specific activity and which are associated with the performance of an activity in respect of which a retention is enjoyed, shall be allocated to the activity in respect of which the corporation tax is retained, and the tax financial result in respect of the said activity shall be determined on the basis of the proportion referred to in Paragraph (1).

### Declaring of Retained or Reduced Corporation Tax

Article 170. Where any taxable person is allowed to retain or reduce corporation tax on different grounds according to the procedure established by this Chapter, the said person shall mandatorily declare in the annual tax return the sequence in which the said person has enjoyed the different grounds for corporation tax retention or reduction.

### Retention of Additionally Ascertained Corporation Tax

Article 171. (1) Any taxable person, who has been allowed to retain corporation tax in a prior year, shall furthermore have the right to retention in respect of the additionally ascertained undeclared corporation tax for the relevant prior year, subject to the condition that the said person fulfils all requirements provided for in this Chapter for the relevant corporation tax retention.

(2) The time limit for fulfilment of the said requirements shall begin to run as from the date of ascertainment of the additional corporation tax.

### Cessation of Right to Retention

Article 172. (1) The right to reduction or retention according to the procedure established by this Chapter shall cease upon transformation of a taxable person, with the exception of transformation through change of the legal form according to the procedure established by Article 264 of the Commerce Act , as well as upon transfer of an enterprise under Article 15 of the Commerce Act .

(2) Paragraph (1) shall furthermore apply upon restructuring of cooperative organizations.

### Non-fulfilment of Requirements

Article 173. (1) Where any requirements of this Chapter for subsequent use (spending) of retained corporation tax are not fulfilled, the said tax shall be due according to the standard procedure established by this Act for the year for which the said tax applies.

(2) Paragraph (1) shall not apply where, in the cases of transformation, the receiving companies or newly formed companies fulfil the obligations of the transferring companies in compliance with the terms and procedure established by this Chapter, referring to the transferring companies. In the cases referred to in sentence one, the receiving companies or newly formed companies shall incur solidary liability for the retained corporation tax of the transmitting companies.

(3) Paragraph (2) shall furthermore apply upon restructuring of cooperative organizations.

## Section II

### Exemption from Levy of Corporation Tax

### Collective Investment Schemes and Investment Companies

#### of Closed-End Type

Article 174. Any collective investment scheme, which has been admitted to public offering in the Republic of Bulgaria, and any licensed investment company of the closed-end type under the Public Offering of Securities Act , shall be exempt from the levy of corporation tax.

### Special Purpose Investment Companies

Article 175. Any special purpose investment company under the Special Purpose Investment Companies Act shall be exempt from the levy of corporation tax.

### Bulgarian Red Cross

Article 176. The Bulgarian Red Cross shall be exempt from the levy of corporation tax.

### Section III

### General Tax Reliefs

#### Tax Incentives upon Hiring of Unemployed Persons

Article 177. (1) Any taxable person shall have the right to debit the accounting financial result thereof upon determination of the tax financial result, where the said person has hired a person under an employment relationship for not less than twelve successive months who, at the time of the hiring thereof, was:

1. registered as unemployed for more than one year, or
2. a registered unemployed person who had attained the age of 50 years, or
3. an unemployed person of reduced working capacity.

(2) The debiting shall be performed by the amounts paid for labour remuneration and the contributions remitted for the account of the employer to the public social insurance funds and the National Health Insurance Fund during the first twelve months after the hiring. The said debiting shall be performed on a single occasion during the year wherein the twelve-month period lapses.

(3) Debiting shall not be performed in respect of any amounts received under the Employment Promotion Act .

(4) Debiting shall not be performed where tax relief under Article 192 herein has been enjoyed in respect of the persons hired.

#### Enterprises Hiring People with Disabilities

Article 178. (1) Any legal person, which is a specialized enterprise or a cooperative within the meaning given by the Integration of Persons with Disabilities Act , which as at the 31st day of December of the relevant year, is affiliated to the nationally representative organizations of and for people with disabilities, shall be allowed to retain 100 per cent of the corporation tax [due therefrom] if:

1. not less than 20 per cent of the total number of employees are blind and visually impaired persons;
2. not less than 30 per cent of the total number of employees are hearing-impaired persons;
3. not less than 50 per cent of the total number of employees are people with other disabilities.

(2) The legal persons referred to in Paragraph (1) shall be allowed to retain the corporation tax due therefrom in proportion to the number of people with disabilities or occupational rehabilitees to the total of number of employees, where the conditions for the number of hired persons under Paragraph (1) are not fulfilled.

(3) Retention shall be admissible where the tax retained is spent entirely on integration of people with disabilities or on the maintenance and creation of jobs for occupational rehabilitees during the two years next succeeding the year for which the retention is enjoyed. The said resources shall be planned, spent and accounted for by ordinances of the national organizations of and for people with disabilities in consultation with the Minister of Finance.

#### Agricultural Producers

Article 179. (1) Any legal person, which is registered as an agricultural producer, shall be allowed to retain 60 per cent of the corporation tax [due therefrom] in respect of the tax profit derived thereby from unprocessed plant and animal produce, inter alia from apiculture, sericulture, freshwater fisheries in man-made water bodies and hothouse horticulture.

(2) Retention shall be admissible where the tax retained is invested in tax tangible and intangible fixed assets needed for performance of the activities specified in Paragraph (1) not later than before the end of the year next succeeding the year for which the retention is enjoyed.

#### Air Traffic Services Authority

Article 180. (1) The Air Traffic Services Authority State-Owned Enterprise shall be allowed to retain 60 per cent of the corporation tax [due therefrom] in respect of the tax profit derived thereby from the core activity thereof.

(2) Retention shall be admissible where the tax retained is invested in and spent on implementation of the European programmes for integration and harmonization of the national air traffic control systems of the European countries and on maintenance of the pecuniary reserve provided for in the Civil Aviation Act .

#### Social and Health Insurance Funds

Article 181. (1) Any social and health insurance fund, which has been established by a law, shall be allowed to retain 50 per cent of the corporation tax [due therefrom] in respect of the economic activity thereof which is directly related or auxiliary to the implementation of the core activity thereof.

(2) Retention shall be admissible where the tax retained is invested in the core activity not later than before the end of the year next succeeding the year for which the retention is enjoyed.

#### Section IV

#### Tax Reliefs Satisfying Requirements for Permissible Regional Aid

#### Taxable Persons which May Not Enjoy Tax Reliefs

Article 182. The tax reliefs under this Section may not be enjoyed by any taxable persons which:

1. carry out activities in the sectors of coal, steel, shipbuilding, synthetic fibres manufacture, fisheries, as well as production of agricultural products listed in Annex I to the Treaty establishing the European Community, for the respective activity, or
2. are subject to bankruptcy proceedings, are placed in liquidation, or are subject to rehabilitation proceedings, or
3. are defined as enterprises in difficulty.

#### Municipalities with Unemployment Rate Above National Average

Article 183. (1) The municipalities where the rate of unemployment is by 35 per cent or more higher than the national average shall be designated annually by an order of the Minister of Finance on a motion by the Minister of Labour and Social Policy, which shall be promulgated in the State Gazette.

(2) The municipalities where the rate of unemployment is by 50 per cent or more higher than the national average shall be designated annually by an order of the Minister of Finance on a motion by the Minister of Labour and Social Policy, which shall be promulgated in the State Gazette.

(3) A municipality whereof the administrative centre is situated in another municipality shall be included in the list referred to in Paragraphs (1) and (2) on the basis of the average weighted level of unemployment in the relevant municipalities, determined on the basis of the size of the economically active population therein.

#### Tax Relief for Carrying Out Manufacturing Activities in Municipalities

#### with Unemployment Rate Above National Average

Article 184. Any taxable person shall be allowed to retain 100 per cent of the corporation tax [due therefrom] in respect of the tax profit derived thereby from the manufacturing activities carried out, including processing of materials supplied by customers, where the following conditions are simultaneously fulfilled:

1. the taxable person carries out manufacturing activities solely in municipalities where the rate of unemployment for the

year preceding the current year was by 35 per cent or more higher than the national average for the same period;

2. the conditions covered under Articles 189 and 190 herein are fulfilled.

#### Specific Cases of Retention

Article 185. (1) Where a municipality drops out of the scope of municipalities referred to in Article 183 herein as a result of an increase in employment, the person which has acquired the right to corporation tax retention shall preserve the said right during the next five successive years, reckoned from the year during which the region drops out of the list, subject to fulfillment of the rest of the conditions for retention.

(2) Where the taxable person satisfied the conditions referred to in Item 1 of Article 184 herein in the year preceding the year in which the municipality dropped out of the scope of municipalities referred to in Article 183 herein but did not carry out manufacturing activity during the said period owing to performance of preparatory work and the said manufacturing activity commences during a subsequent year, the right to tax retention shall accrue as from the year of commencement of the manufacturing activity and shall be preserved during the next four successive years, subject to fulfillment of the rest of the conditions for retention.

#### Investment Tax Credit

Article 186. (1) Any taxable person shall have the right to reduce the corporation tax due therefrom by 10 per cent of the value of the assets acquired where the conditions covered under Articles 189 and 190 herein are fulfilled.

(2) The right referred to in Paragraph (1) shall accrue subject to the condition that the initial investment is implemented entirely in municipalities where the rate of unemployment for the year preceding the current year was by 50 per cent or more higher than the national average for the same period.

(3) The taxable persons shall exercise the right referred to in Paragraph (1) for the year of acquisition of the assets. Where the amount of reduction exceeds the corporation tax due for the relevant year, the succeeding corporation tax prepayments and annual payments shall be debited with the difference.

(4) Where the assets referred to in Paragraph (1) were acquired during any period exceeding one year, the provisions of Paragraph (3) shall apply observing the sequence of occurrence.

#### Tax Relief for Cooperatives

Article 187. (1) Any cooperative and any enterprise formed thereby, which is affiliated to a cooperative union within the meaning given by Chapter Four of the Cooperatives Act, shall be allowed to retain 60 per cent of the corporation tax [due therefrom] where the conditions covered under Articles 189 and 190 herein are fulfilled.

(2) Any cooperative and any enterprise formed thereby shall transfer 50 per cent of the corporation tax so retained to the investment funds of the cooperative unions within the time limits for crediting the said tax to Budget Revenue.

(3) Annually, on or before the 31st day of March, the cooperative unions shall account to the Ministry of Finance for the raising and the spending of the corporation tax so retained on the assigned purpose. Should it be established that the conditions for retention have not been fulfilled, the tax retained which has accrued to the cooperative unions shall be refunded thereby to the executive budget with the interest due.

#### Taxable Persons Which Need Not Apply General Conditions

##### under this Section

Article 188. (1) The general conditions covered under Article 189 herein need not be applied by any taxable persons which have received de minimis aids, regardless of the form or source of acquisition thereof, to a total amount not exceeding BGN 200,000 during the last three years, including the current year. The amount referred to in sentence one shall furthermore include the reduced or retained corporation tax in respect of which Articles 189 and 190 herein are not applied, due from the taxable person for the last three years, including the corporation tax which is subject to reduction or retention for the current year.

(2) The taxable persons referred to in Paragraph (1) must invest the retained corporation tax in tax tangible and intangible fixed assets needed for performance of manufacturing activities within four years after the beginning of the year for



which the retention was enjoyed.

(3) Paragraph (1) shall not apply in respect of:

1. the sector of transport;
2. any activities related to fisheries and agricultural products covered by Council Regulation (EC) No 104/2000;
3. any activities related to primary production of agricultural products listed in Annex I to the Treaty establishing the European Community;
4. any aids granted to enterprises active in the processing and marketing of agricultural products listed in Annex I to the Treaty establishing the European Community, the amount of which is fixed on the basis of price or quantity of products purchased or put on the market or depending on a delivery, in whole or in part, to primary producers (farmers);
5. any aids to export-related activities, namely aid directly linked to the quantities exported, and aid contingent upon the use of domestic over imported goods;
6. any aids to the establishment and operation of a distribution network or to other current expenditure linked to export activity.

#### General Conditions

Article 189. (1) Any taxable persons which apply this Section must fulfil the requirements for the grant of regional aid according to the State Aids Act and the Regulations for Application of the State Aids Act , including:

1. in respect of the taxable persons which apply Article 186 herein, the assets acquired must form part of an initial investment;
2. in respect of the taxable persons which apply Article 184 or 187 herein and the retained corporation tax has been invested in acquisition of assets, the assets must form part of an initial investment made within four years after the beginning of the year for which the retention was enjoyed;
3. the intangible assets referred to in Items 1 and 2 must be:
  - (a) used solely by the taxable person, and
  - (b) depreciable assets;
4. the value of the intangible assets forming part of the initial investment must represent not more than 25 per cent of the value of the tangible fixed assets forming part of the initial investment;
5. at least 25 per cent of the value of the assets forming part of the initial investment must be self-financed or debt-financed; the tax retained, as well as other resources defined as State aid or containing any State aid element whatsoever, shall not be treated as self-financing or debt-financing;
6. the assets referred to in Items 1 and 2 must have been acquired under market conditions not differing from the conditions between unrelated parties;
7. the ownership of the assets referred to in Item 1 and 2 may not be transferred within five years after the date of acquisition of the said assets; during the said period, when a State aid has been granted according to the procedure established by Articles 184 and 186 herein, the assets referred to in Items 1 and 2 must be used solely in municipalities referred to in Article 183 herein.

(2) The fulfilment of the conditions covered under Items 1 to 6 of Paragraph (1), the value of the initial investment and the period of implementation thereof shall be declared by the annual tax return for the year in which all these conditions are fulfilled.

## Additional Conditions for Corporation Tax Reduction and Retention

Article 190. (1) Where the regional aids from all sources related to the initial investment exceed BGN 75 million, the corporation tax reduction or retention shall be permissible where the taxable person has been granted a permissibility authorization by the European Commission under the terms and according to the procedure established by the State Aids Act .

(2) In the cases covered under Paragraph (1), the taxable person shall notify the Ministry of Finance prior to the acquisition of any assets forming part of the initial investment, providing the information required for the completion of a notification by the Ministry of Finance for grant of State aid under the State Aids Act .

(3) The regional aids from all sources, related to the initial investment, must not exceed 50 per cent or the relevant percentage according to the applicable regional aid map, as adopted by a Council of Ministers decree, of the value of the initial investment where the initial investment does not exceed BGN 100 million. Where the initial investment exceeds BGN 100 million (a large investment project), the regional aids from all sources, related to the initial investment, must not exceed the relevant adjusted percentage determined according to the Regulations for Application of the State Aids Act.

(4) Each investment project shall be considered to be a large investment project in the cases where the initial investment is implemented over a period of three years by one or several enterprises and includes fixed assets combined in a single economically indivisible whole.

### Section V

#### Tax Reliefs Satisfying Requirements for Permissible State Aid for

#### Employment

#### Taxable Persons which May Not Enjoy Tax Reliefs

Article 191. The tax relief under this Section may not be enjoyed by any taxable persons which:

1. carry out activities in the sectors of coal, steel, transport and shipbuilding, for the respective activity, or
2. are subject to bankruptcy proceedings, are placed in liquidation, or are subject to rehabilitation proceedings, or
3. are defined as enterprises in difficulty, or
4. receive any aids to export-related activities, namely aids directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current expenditure linked to export activity, or
5. receive any aids contingent upon the use of domestic over imported goods.

#### Tax Relief for Employment Promotion

Article 192. (1) Upon determination of the tax financial result, the accounting financial result may be debited with the compulsory social insurance contributions remitted for the current year for the account of the employer in respect of the newly created jobs, where the conditions covered under Article 193 herein are fulfilled. The said reduction shall be enjoyable on a single occasion in the year during which the persons are appointed.

(2) The right referred to in Paragraph (1) shall accrue subject to the condition that the jobs have been created in municipalities where the rate of unemployment for the year preceding the current year is by 50 per cent or more higher than the national average for the same period.

#### General Conditions

Article 193. (1) Any taxable persons which apply this Section must fulfil the conditions for the grant of State aid for employment according to European Commission Regulation (EC) No 2204/2002, including:

1. the average number of employees for the current year must have increased compared to the preceding year as a result of the newly created jobs, and persons registered as unemployed must be appointed to the newly created jobs under an employment contract;

2. the newly created jobs must be maintained for a minimum period of three years;

3. the State aid referred to in Article 192 herein, together with other State aids for employment in respect of the same newly created jobs, must not exceed 50 per cent of the relevant percentage according to the applicable regional aid map, as adopted by a Council of Ministers decree, of the cost of wages and compulsory social insurance contributions for the newly created jobs for two years;

4. the State aid referred to in Article 192 herein, together with other regional aids and State aids for employment, must not exceed 50 per cent of the relevant percentage according to the applicable regional aid map, as adopted by a Council of Ministers decree, of the sum total of the initial investment and the cost of wages and compulsory social insurance contributions for newly created jobs, related to the initial investment, for two years.

(2) Where the State aid for employment referred to in Article 192 herein, including other State aids for employment, exceeds BGN 30 million for three years, the reduction shall be valid where the conditions under this Section are fulfilled and the taxable person has been granted a permissibility authorization by the European Commission under the terms and according to the procedure established by the State Aids Act .

(3) The fulfillment of the conditions under this Section shall be declared by the annual tax return.

### PART THREE

## WITHHOLDING TAX

### Chapter Twenty-Three

## SCOPE OF TAXATION

### Withholding Tax on Income from Dividend and Shares in Liquidation

#### Surplus

Article 194. (1) A tax withheld at source shall be levied on any dividends and shares in a liquidation surplus, as distributed (apportioned) by any resident legal person in favour of:

1. any non-resident legal persons, with the exception of the cases where the dividends accrue to a non-resident legal person through a permanent establishment in the country;
2. any resident legal persons which are not merchants, including any municipalities.

(2) The tax referred to in Paragraph (1) shall be final and shall be withheld by the resident legal persons distributing dividends or shares in a liquidation surplus.

(3) Paragraph (1) shall not apply where the dividends and shares in a liquidation surplus are distributed in favour of:

1. any resident legal person which participates in the capital of the company as a representative of the State;
2. any common fund.

#### Tax Withheld on Income of Non-resident Persons

Article 195. (1) Any income which has its source inside the country, referred to in Article 12 (2), (3), (5) and (8) herein, accruing to any non-resident legal person, were not accruing through a permanent establishment, shall be subject to levy of a tax withheld at source which shall be final.

(2) The tax referred to in Paragraph (1) shall be withheld by the resident legal persons, the sole traders or the permanent establishments in the country which charge the income to the non-resident legal persons, with the exception of the income referred to in Article 12 (3) and (8) herein.

(3) Where the payer of the income is not a taxable person covered under Article 2 herein and in respect of the income

referred to in Article 12 (3) and (8) herein, the tax shall be withheld from the recipient of the income.

(4) Paragraphs (1) and (2) shall furthermore apply where the non-resident person, acting through a permanent establishment, charges the said income to other divisions of the enterprise thereof situated outside the country, with the exception of the cases where accounting expenses are not recognized for tax purposes or accounting expenses or assets, accounted for at the costs actually incurred (cost price) are recognized for tax purposes of a permanent establishment.

(5) The prepayments in connection with the income referred to in Paragraph (1) shall not be subject to levy of a tax withheld at source.

#### Securities Traded on Regulated Market

Article 196. Any income from disposition of shares in public companies, negotiable rights attaching to shares in public companies, and shares in and units of collective investment schemes, shall not attract a tax withheld at source where the said disposition is effected on a regulated Bulgarian securities market.

#### Chapter Twenty-Four

### TAXABLE AMOUNT

#### Taxable Amount for Withholding Tax on Dividend Income

Article 197. The taxable amount for assessment of the tax withheld at source on any income accruing from dividends shall be the gross amount of the dividends distributed.

#### Taxable Amount for Withholding Tax on Liquidation Surplus Share

Article 198. The taxable amount for assessment of the tax withheld at source on any income accruing from shares in a liquidation surplus shall be the difference between the market price of the claim by the relevant shareholder or member and the documented cost of acquisition of the shares or interests thereof.

#### Taxable Amount for Withholding Tax on Non-resident Persons' Income

Article 199. (1) The taxable amount for assessment of the tax withheld at source on the income referred to in Article 195 (1) herein shall be the gross amount of the said income, with the exception of the cases referred to in Paragraphs (3) and (4).

(2) The taxable amount for assessment of the tax withheld at source on any income accruing to any non-resident legal persons from interest payments under financial lease contracts, in the cases where the contract does not stipulate the rate of the said interest, shall be determined on the basis of the market rate of interest.

(3) The taxable amount for assessment of the tax withheld at source on any income accruing to any non-resident legal persons from acts of disposition of financial assets shall be the positive difference between the selling price of the said assets and the documented cost of acquisition thereof.

(4) The taxable amount for assessment of the tax withheld at source on any income accruing to any non-resident legal persons from disposition of immovable property shall be the positive difference between the selling price and the documented cost of acquisition of the immovable property.

(5) The selling price, for the purposes of Paragraphs (3) and (4), shall be the valuable consideration under the transaction, including the reward other than money, which shall be valued at market prices as at the date of charging of the income.

(6) Upon termination of a financial lease contract before expiry of the term of validity thereof and without passing of the right of ownership to the relevant assets which are subject of the contract, the non-refundable lease payments shall be considered income from use of property acquired by the non-resident legal person at the time of termination. The withholding tax on the income from interest payments, remitted until the time of termination of the lease contract, shall be deducted from the withholding tax due on income from use of the property.

#### Chapter Twenty-Five

### RATES OF TAX

## Rates of Tax

Article 200. (1) The rate of tax on the income covered under Article 194 herein shall be 7 per cent.

(2) The rate of tax on the income covered under Article 195 herein shall be 10 per cent.

## Chapter Twenty-Six

## DECLARING OF TAX

### Declaring of Tax. Certificate on Tax Withheld on

#### Non-resident Persons' Income

Article 201. (1) The persons, who or which have withheld and remitted the tax at source under Articles 194 and 195 herein, and the persons who or which have charged the income referred to in Article 12 (3) and (8) herein, shall declare this circumstance to the National Revenue Agency territorial directorate exercising competence over the place of registration or over the place where the payer of the income is registrable, by means of a declaration in a standard form. Any such declaration shall be submitted each quarter not later than at the end of the month next succeeding the relevant quarter.

(2) Where the payer of the income is not registrable, the tax declaration shall be submitted to the Sofia Territorial Directorate of the National Revenue Agency.

(3) In the cases where the payer of the income is a person who or which is not obligated to withhold and remit a tax, the declaration shall be submitted by the recipient of the income before submission of the request for the issuance of a certificate referred to in Paragraph (4) or within the time limit referred to in Paragraph (1), whichever of the two is the earlier.

(4) A certificate on the tax remitted according to the procedure established by this Act on income accruing to non-resident legal persons shall be issued in a standard form at the request of the interested party. Any such certificate shall be issued by the National Revenue Agency territorial directorate where the tax is subject to remittance.

## Chapter Twenty-Seven

## TAX REMITTANCE

### Tax Remittance

Article 202. (1) Any payers of income withholding the tax at source under Article 194 herein shall be obligated to remit the taxes due as follows:

1. within three months after the beginning of the month next succeeding the month during which a decision was made on distribution of dividends or shares in a liquidation surplus: in the cases where the owner of the income is a resident of a State wherewith the Republic of Bulgaria has an effective convention for the avoidance of double taxation;

2. not later than at the end of the month next succeeding the month during which a decision was made on distribution of dividends or shares in a liquidation surplus: in all other cases.

(2) Any payers of income withholding the tax at source under Article 195 herein shall be obligated to remit the taxes due as follows:

1. within three months after the beginning of the month next succeeding the month of charging of the income: in the cases where the owner of the income is a resident of a State wherewith the Republic of Bulgaria has an effective convention for the avoidance of double taxation;

2. not later than at the end of the month next succeeding the month of charging of the income: in all other cases.

(3) The tax due referred to in Paragraphs (1) and (2) shall be remitted to the relevant National Revenue Agency

territorial directorate exercising competence over the place of registration or over the place where the payer of the income is registrable.

(4) Where any payer of income referred to in Paragraph (2) is not a taxable person and in respect of any income referred to in Article 12 (3) and (8) herein, the tax shall be remitted by the recipient of the income within the time limit referred to in Paragraph (2), and the income shall be considered to be charged as from the date of receipt of the said income by the non-resident legal person. The tax due shall be remitted to the relevant National Revenue Agency territorial directorate exercising competence over the place of registration or over the place where the payer of the income is registrable. Where the payer of the income is not registrable, the tax shall be remitted to the Sofia Territorial Directorate of the National Revenue Agency.

(5) Any overremitted tax shall be refunded by the National Revenue Agency territorial directorate whereto the tax is subject to remittance.

#### Liability

Article 203. Where the tax referred to in Articles 194 and 195 herein has not been withheld and remitted according to the relevant procedure, the said tax shall be due solidarily by the persons which incur tax liability for the relevant income.

#### PART FOUR

#### TAX ON EXPENSES

##### Chapter Twenty-Eight

#### GENERAL DISPOSITIONS

#### Scope of Taxation

Article 204. A tax on expenses shall be levied on the following expenses supported by documents:

1. any business entertainment expenses;

2. any expenses on fringe benefits provided in kind to factory and office workers and to persons hired under a management and control contracts (hired persons); the expenses on fringe benefits provided in kind shall furthermore include:

(a) the expenses on contributions (premiums) for voluntary retirement and health insurance and voluntary unemployment and/or vocational-training insurance, and/or life assurance and life assurance linked to an investment fund;

(b) the expenses on food vouchers;

3. the expenses related to operation of means of transport where used to service management operations.

#### Expenses on Fringe Benefits Not Provided in Kind

Article 205. Any expenses on fringe benefits, which are not provided in kind and which constitute income of a natural person, shall be taxed under the terms and according to the procedure established by the Income Taxes on Natural Persons Act .

#### Recognition of Tax on Expenses

Article 206. (1) The expense and the tax thereon shall be recognized for tax purposes in the year of charging and shall not form a temporary tax difference according to the procedure established by Chapter Eight herein.

(2) The tax on expenses shall be final.

#### Taxable Persons

Article 207. (1) Taxable persons in respect of the tax referred to in Items 1 and 3 of Article 204 herein shall be the persons which are subject to levy of corporation tax.

(2) Taxable persons in respect of the tax referred to in Item 2 of Article 204 herein shall be all employers or

commissioning entities under management and control contracts.

#### Exemption from Taxation of Fringe Benefit Expenses on Contributions

#### and Premiums for Supplementary Social Insurance and Life Assurance

Article 208. No tax shall be levied on any expenses on fringe benefits referred to in Item 2 (a) of Article 204 herein not exceeding the amount of BGN 60 per month per hired person, where the taxable persons do not incur any coercively enforceable public obligations at the time of incurrence of the expenses.

#### Exemption from Taxation of Fringe Benefit Expenses on Food Vouchers

Article 209. (1) No tax shall be levied on any expenses on fringe benefits referred to in Item 2 (b) of Article 204 herein not exceeding the amount of BGN 40 per month, provided in the form of food vouchers to each hired person, where the following conditions are simultaneously fulfilled:

1. the basic monthly remuneration of the person in the month of provision of the vouchers is not lesser than the average monthly basic remuneration of the said person for the last preceding three months;
2. the taxable person does not incur any coercively enforceable public obligations at the time of provision of the vouchers;
3. the vouchers are provided to the taxable person by a person which has obtained authorization to carry on operator business from the Minister of Finance on the basis of a competitive procedure;
4. the amounts on the vouchers as provided, paid by the taxable person to the operator, may be used solely for settlement through bank transfer with the persons which have concluded a contract for provision of services with the operator, or for refunding to the taxable person, up to the amount of the nominal value of the vouchers, in the cases where the said vouchers have not been used;
5. the persons wherewith the operator has concluded a contract for provision of services to the hired persons are registered under the Value Added Tax Act .

(2) The right to carry on operator business shall be limited to a person which has obtained authorization from the Minister of Finance and which:

1. has a paid up share (registered) capital of at least BGN 2 million at the time of submission of the documents for the grant of authorization;
2. is registered under the Value Added Tax Act ;
3. is not subject to bankruptcy proceedings or is not placed in liquidation;
4. does not incur any coercively enforceable public obligations at the time of submission of the documents for authorization;
5. is represented by any persons who:
  - (a) have not been convicted of a premeditated offence at public law, unless rehabilitated;
  - (b) have not been members of a supervisory body or a management body of any corporation dissolved through bankruptcy during the two years last preceding the date of the judgment on institution of bankruptcy proceedings, if any creditors have been left unsatisfied.

(3) The authorization shall be granted by the Minister of Finance on the basis of a competitive procedure and shall be withdrawn when the person ceases to satisfy the requirements covered under Paragraph (2).

(4) The grant, refusal of authorization or withdrawal of an authorization granted shall be effected by a written order of the Minister of Finance.

(5) Any refusal to grant an authorization and any withdrawal of an authorization shall be appealable according to the procedure established by the Administrative Procedure Code.

(6) The procedure for the conduct of a competitive procedure, for the grant and withdrawal of an authorization, the terms and a procedure for the printing of vouchers, the number of vouchers issued, the terms for organization and control of the conduct of operator business shall be established by an ordinance of the Minister of Labour and Social Policy and the Minister of Finance.

#### Exemption from Taxation of Fringe Benefit Expenses on Transportation

of Factory and Office Workers and Persons Hired under Management

and Control Contract

Article 210. (1) No tax shall be levied under Item 2 of Article 204 herein on any expenses on fringe benefits incurred on transportation of factory and office workers and of persons hired under a management and control contract from the place of residence to the place of work and back.

(2) Paragraph (1) shall not apply where any such transportation is carried out by passenger car or by extra bus services.

(3) Paragraph (1) shall furthermore apply where the transportation of factory and office workers is carried out by passenger car to inaccessible and remote areas and the taxable person cannot ensure the implementation of the activity thereof without incurrence of the expense.

Chapter Twenty-Nine

#### TAXABLE AMOUNT

Taxable Amount for Tax on Entertainment Expenses

Article 211. The taxable amount for assessment of the tax on expenses referred to in Item 1 of Article 204 herein shall be the expenses charged for the relevant month.

Taxable Amount for Tax on Fringe Benefit Expenses Provided in Kind

Article 212. The taxable amount for assessment of the tax on expenses referred to in Item 2 of Article 204 herein shall be the expenses on fringe benefits provided in kind debited with the income related to the said expenses for the relevant month.

Taxable Amount for Tax on Fringe Benefit Expenses on Contributions

(Premiums) for Supplementary Social Insurance and Life Assurance

Article 213. (1) The taxable amount for assessment of the tax on expenses referred to in Item 2 (a) of Article 204 herein shall be the excess of the said expenses over BGN 60 per month per hired person.

(2) Where the taxable persons incur any coercively enforceable public obligations at the time of charging of the expenses, the taxable amount for assessment of the tax on expenses shall be the full amount of the expenses charged.

Taxable Amount for Tax on Fringe Benefit Expenses on Food Vouchers

Article 214. (1) The taxable amount for assessment of the tax on expenses referred to in Item 2 (b) of Article 204 herein shall be the excess of the said expenses over BGN 40 per month per hired person.

(2) Where the conditions for exemptions from tax under Article 209 herein are not fulfilled, the taxable amount for assessment of the tax on expenses shall be the full amount of the expenses charged.

Taxable Amount for Tax on Expenses Related to Maintenance, Repair and

Operation of Means of Transport



Article 215. (1) The taxable amount for assessment of the tax on expenses referred to in Item 3 of Article 204 herein shall be the expenses on maintenance, repair and operation of means of transport, charged during the calendar month, debited with the income charged from insurance benefits associated with the means of transport, up to the amount of the expenses on repair incurred where to the benefit applies.

(2) Where means of transport are used concurrently to carry out activity as a regular business and to service management operations, upon determination of the taxable amount referred to in Paragraph (1):

1. the expenses on operation shall relate to the management operations on the basis of the total kilometres covered for the said operations during the current month;

2. the expenses on maintenance and repair shall relate to the management operations on the basis of the kilometres covered for the said operations in relation to the total kilometres covered by the relevant means of transport during the last preceding twelve months, including the current month.

(3) Where the taxable amount referred to in Paragraph (1) is a negative quantity, it shall be deducted successively from the taxable amount for the succeeding months.

#### Chapter Thirty

### RATE OF TAX AND REMITTANCE OF TAX ON EXPENSES

#### Rate of Tax

Article 216. The rate of the tax on expenses referred to in Article 204 herein shall be 10 per cent.

#### Tax Remittance

Article 217. The tax on expenses shall be remitted on or before the 15th day of the month next succeeding the month in which the expense was charged. Where the taxable person has overremitted any tax on expenses or any corporation tax, the said tax may be deducted from the tax on expenses due.

### PART FIVE

### ALTERNATIVE TAXES

#### Chapter Thirty-One

### GENERAL DISPOSITIONS

#### Alternative Tax

Article 218. (1) The taxable persons specified in this Part shall be liable, instead of corporation tax, to an alternative tax in respect of the activities specified in this Part.

(2) In respect of all other activities, the persons referred to in Paragraph (1) shall be liable to corporation tax, with the exception of public-finance enterprises.

#### Chapter Thirty-Two

### TAX ON GAMBLING ACTIVITY

#### Section I

#### General Dispositions

#### Record-keeping

Article 219. (1) The taxable persons under this Chapter shall be obligated to keep daily and monthly records of the amounts received and paid for participation in the games of chance in standard forms as endorsed by the Minister of Finance.

(2) Paragraph (1) shall not apply:

1. to the gambling activity specified in Section V herein;
2. to any games of chance where the value of the bet consists in an increased charge for a telephone or another telecommunication link;
3. where a computer system has been provided for monitoring the drawings and the proceeds in the conduct of the games, as well as for control on the formation and distribution of profits, ensuring the transmission of the requisite data to the National Revenue Agency.

(3) The tax on the ancillary and auxiliary activities, within the meaning given by the Gambling Act, shall be declared by an annual tax return in a standard form, which shall be submitted not later than the 31st day of March of the next succeeding year to the National Revenue Agency territorial directorate exercising competence over the place of registration of the taxable person.

## Section II

### Tax on Gambling Activities of Toto and Lotto, Betting on Outcome of

### Sports Competition and Uncertain Events

#### General Dispositions

Article 220. The gambling activities of toto and lotto, betting on the outcome of a sports competition and uncertain events shall attract a tax on gambling activity which shall be final.

#### Taxable Persons

Article 221. Taxable persons under this Section shall be the organizers of the games of chance of toto and lotto, betting on the outcome of a sports competition and uncertain events.

#### Taxable Amount

Article 222. The taxable amount for assessment of the tax on gambling activity under this Section shall be the value of the bets taken for each game.

#### Rate of Tax

Article 223. The rate of tax on gambling activity under this Section shall be 10 per cent.

#### Declaring of Tax

Article 224. The tax on gambling activity under this Section shall be declared prior to determining the results of each game by means of a tax return in a standard form.

#### Tax Remittance

Article 225. The tax on gambling activity under this Section shall be remitted:

1. in respect of games conducted daily: within three business days after determining the results for the last preceding seven calendar days;
2. in respect of games conducted over a period not exceeding seven days: within three business days after determining the results but before determining the results of the next succeeding game;
3. in respect of games conducted over a longer period: within seven days after determining the results.

#### Income from Ancillary and Auxiliary Activities

Article 226. (1) Any income accruing from ancillary and auxiliary activities within the meaning given by the Gambling Act shall attract an alternative tax on the value of the said income at the rate of 10 per cent.

(2) The tax shall be remitted on or before the 15th day of the month next succeeding the month of charging of the income referred to in Paragraph (1).

## Section III

### Tax on Gambling Activity of Lotteries, Raffles and Bingo and Keno

#### Numbers Lotteries

##### General Dispositions

Article 227. The gambling activity of lotteries, raffles and bingo and keno numbers lotteries shall attract a tax on gambling activity which shall be final.

##### Taxable Persons

Article 228. Taxable persons under this Section shall be the organizers of the games of chance: lotteries, raffles, and bingo and keno numbers lotteries.

##### Taxable Amount

Article 229. The taxable amount for assessment of the tax on gambling activity under this Section shall be the nominal value of the bet as specified in coupons, cards, tickets or other tokens certifying participation.

##### Rate of Tax

Article 230. The rate of tax on gambling activity under this Section shall be 12 per cent.

##### Declaring of Tax

Article 231. The tax on gambling activity under this Section shall be declared monthly, on or before the 10th day of the next succeeding month, by means of a return in a standard form.

##### Tax Remittance

Article 232. (1) The tax on gambling activity under this Section shall be remitted prior to receiving the tokens certifying participation or to effecting the importation of any such tokens.

(2) The enterprises designated by the Minister of Finance or by another authority specified by a law, which print tokens certifying participation or which effect the importation thereof, shall provide the tokens certifying participation solely upon presentation of documents on tax paid.

##### Refund of Tax

Article 233. (1) Any tax paid on any unused tokens shall be refunded by the National Revenue Agency territorial directorate exercising competence over the place of registration of the person:

1. after completion of each stage (drawing) of the periodic lottery games, or
2. when the activity of the organizer has been discontinued in pursuance of Article 81 (2) of the Gambling Act .

(2) The unused tokens certifying participation, as well as the decision on discontinuance of the activity in the cases referred to in Item 2 of Paragraph (1), shall be attached to the claim for refund under the Tax and Social-Insurance Procedure Code .

##### Income from Ancillary and Auxiliary Activities

Article 234. (1) Any income accruing from ancillary and auxiliary activities within the meaning given by the Gambling Act shall attract an alternative tax on the value of the said income at the rate of 12 per cent.

(2) The tax shall be remitted on or before the 15th day of the month next succeeding the month of charging of the income referred to in Paragraph (1).

## Section IV

### Tax on Gambling Activity of Games where Value of Bet Consists in

#### Increased Charge for Telephone or Another Telecommunication Link

### General Dispositions

Article 235. The gambling activity of games where the value of the bet consists in an increased charge for a telephone or another telecommunication link shall attract a tax on gambling activity which shall be final.

### Taxable Persons

Article 236. Taxable persons according to the procedure established by this Section shall be the organizers of the games of chance where the value of the bet consists in an increased charge for a telephone or another telecommunication link.

### Taxable Amount

Article 237. The taxable amount for assessment of the tax under this Section shall be the increase in the charge for the telephone or telecommunication link.

### Rate of Tax

Article 238. The rate of tax under this Section shall be 12 per cent.

### Declaring of Bets Made and of Tax

Article 239. (1) The organizer of the game of chance shall declare the bets made and the tax under this Section to the National Revenue Agency territorial directorate exercising competence over the place of registration of the said organizer on or before the 20th day of the month next succeeding the month of conduct of the games, by means of a return in a standard form.

(2) The telephone or telecommunication network operator shall declare the bets made and the tax under this Section to the National Revenue Agency territorial directorate exercising competence over the place of registration of the said operator on or before the 20th day of the month next succeeding the month of conduct of the games, by means of a return in a standard form.

### Tax Remittance

Article 240. (1) The tax on gambling activity under this Section shall be withheld and remitted by the licensed telephone or telecommunication network operator on or before the 20th day of the month next succeeding the month of conduct of the games.

(2) The telephone or telecommunication network operator shall be obligated to satisfy itself that the organizer of the game of chance has obtained authorization from the State Commission on Gambling and to present to the National Revenue Agency territorial directorate the contract whereunder the said operator takes the bets, incorporating a clause on the increase in the charge for the telephone or telecommunication link.

### Income from Ancillary and Auxiliary Activities

Article 241. (1) Any income accruing from ancillary and auxiliary activities within the meaning given by the Gambling Act shall attract an alternative tax on the value of the said income at the rate of 12 per cent.

(2) The tax shall be remitted on or before the 15th day of the month next succeeding the month of charging of the income referred to in Paragraph (1).

## Section V

### Tax on Gambling Activity Using Gambling Devices

#### General Dispositions

Article 242. The gambling activity using gambling slot-machines, devices for betting on the results of horse or dog races, roulettes and other gambling devices in a gambling casino, shall attract a tax on gambling activity which shall be final.

#### Taxable Persons

Article 243. Taxable persons under this Section shall be the organizers of games of chance played on gambling slot-machines, devices for betting on the results of horse or dog races, roulettes and other gambling devices in a gambling

casino.

#### Tax Assessment

Article 244. The tax under this Section shall be assessed in respect of the devices entered in the authorization and operated:

1. gambling slot-machines, respectively each player's place at such machines;
2. devices for betting on the results of horse or dog races;
3. roulettes at a casino, gambling tables and in respect of other gambling devices at a casino.

#### Amount of Tax

Article 245. (1) The amounts of the tax on gambling activity under this Section are set as follows:

1. in respect of a gambling slot-machine, respectively, each players' place at such a machine: BGN 300 per quarter;
2. in respect of a facility for betting on the results of horse or dog races: BGN 300 per quarter for each device;
3. in respect of a roulette at a casino per gambling table: BGN 18,000 per quarter for each device;
4. in respect of any other gambling device at a casino: BGN 3,000 per quarter for each device.

(2) No tax shall be due for the quarters prior to the grant and after the withdrawal of the authorization to organize games of chance played on the relevant device.

(3) The tax shall be due in full amount for the quarter in which the authorization to organize games of chance played on the relevant device is granted or withdrawn.

#### Declaring of Tax

Article 246. The organizer of a game of chance shall declare the tax under this Section to the National Revenue Agency territorial directorate exercising competence over the place of registration of the said organizer on or before the 15th day of the month next succeeding the quarter.

#### Tax Remittance

Article 247. (1) The tax under this Section shall be remitted within the time limits for declaring of the said tax.

(2) The tax shall be remitted in respect of each gambling establishment by a separate payment order, wherein the location and address of the said establishment shall be stated.

(3) The persons under this Section shall transmit a copy of the payment order to the National Revenue Agency territorial directorate exercising competence over the location of the gambling hall, the betting establishment or the casino and to the gambling control authority.

#### Chapter Thirty-Three

### TAX ON PUBLIC-FINANCED ENTERPRISE' INCOME

#### General Dispositions

Article 248. Any income accruing to any public-financed enterprise from any transactions covered under Article 1 of the Commerce Act , as well as from rent of movable and immovable property, shall attract a tax on income according to the procedure established by this Chapter.

#### Taxable Amount

Article 249. (1) The taxable amount for assessment of the tax on income shall be monthly and annual.

(2) The monthly taxable amount shall be the income accruing to the public-financed enterprise from any transactions

covered under Article 1 of the Commerce Act , as well as from rent or movable and immovable property, charged during the relevant month.

(3) The annual taxable amount shall be the income accruing to the public-financed enterprise from any transactions covered under Article 1 of the Commerce Act , as well as from rent or movable and immovable property, charged during the relevant year.

#### Rates of Tax

Article 250. (1) The rate of tax on income shall be 3 per cent.

(2) The rate of tax on income accruing to the municipalities shall be 2 per cent.

#### Tax Retention

Article 251. (1) Any public-financed scientific research enterprise, public higher school, state-owned and municipal school included in the system of public education shall be allowed to retain 50 per cent of the tax on income [due therefrom] in respect of the economic activity thereof as is directly related or auxiliary to the implementation of the core activity thereof.

(2) The tax so retained shall be shown as a written-off obligation to the State.

#### Declaring of Tax

Article 252. Any public-financed enterprises subject to levy of a tax on income for the relevant year shall submit an annual tax return in a standard form on or before the 31st day of March of the next succeeding year.

#### Tax Remittance

Article 253. (1) The tax on income, as assessed on the monthly taxable amount, shall be remitted by public-financed enterprises on or before the 15th day of the month next succeeding the month of charging of the income.

(2) Where the sum total of the monthly taxable amounts for the year is less than the annual taxable amount, the tax due shall be remitted on or before the 31st day of March of the next succeeding year.

(3) Where the sum total of the monthly taxable amounts for the year is greater than the annual taxable amount, the overremitted tax may be deducted from the taxes on income due after submission of the annual tax return.

#### Chapter Thirty-Four

### TAX ON VESSELS OPERATION ACTIVITY

#### General Dispositions

Article 254. (1) The taxable persons, specified in this Chapter, may elect that the vessels operation activity thereof attract a tax on vessels operations activity.

(2) The tax referred to in Paragraph (1) shall be levied on the taxable persons which have elected to be liable for the said tax for a period not exceeding five years.

#### Taxable Persons

Article 255. Taxable persons according to the procedure established by this Chapter shall be the persons carrying out maritime merchant shipping which simultaneously fulfil the following conditions:

1. they are corporations registered under the Commerce Act , or permanent establishments of a corporation which is resident for tax purposes in another Member State of the European Community, or a Member State of the European Economic Area, according to the relevant tax legislation and by virtue of a convention for the avoidance of double taxation with a third State is not considered to be resident for tax purposes in another State outside the European Community or the European Economic Area;

2. they operate their own vessels or chartered vessels, or manage vessels under a contract of management, as well as charter vessels;

3. they do not refuse to train apprentices on board the vessels, with the exception of the cases where the number of apprentices exceeds one per fifteen officer members of the ship's complement;

4. they man the vessel with Bulgarian citizens or with nationals of other Member States of the European Community or of the European Economic Area;

5. vessels flying the Bulgarian flag or a flag of another Member State of the European Community or of the European Economic Area account for at least 60 per cent of the net tonnage of the vessels operated.

#### Restrictions on Scope of Tax

Article 256. The taxable persons shall not have the right to apply the procedure for taxation under this Chapter in respect of:

1. any seagoing vessels of a net tonnage under 100 tons;

2. any fishing vessels;

3. any pleasure vessels, with the exception of passenger vessels;

4. any vessels which the taxable persons have provided for management or under a bareboat charter, with the exception of the cases where any such vessels have been provided to the State;

5. any rigs for extraction of subsurface resources, any oil production platforms, and any vessels engaged in dredging operations and in tugging and towage operations.

#### Taxable Amount

Article 257. (1) The taxable amount per vessel per day of service shall be determined as follows:

1. in respect of any vessel of a net tonnage of up to 1,000 tons inclusive: BGN 3.50 for each 100 tons or fraction;

2. in respect of any vessel of a net tonnage from 1,001 up to 10,000 tons inclusive: BGN 35 plus BGN 3.00 for each 100 tons or fraction;

3. in respect of any vessel of a net tonnage from 10,001 up to 25,000 tons inclusive: BGN 305 plus BGN 2.50 for each 100 tons or fraction above 10,000 tons;

4. in respect of any vessel of a net tonnage in excess of 25,001 tons: BGN 680 plus BGN 1 for each 100 tons or fraction above 25,000 tons.

(2) The taxable amount per ship for a calendar month shall be determined by multiplying the taxable amount for the relevant vessel per day of service, as determined according to the procedure established by Paragraph (1), by the days of service of the relevant vessel during the calendar month.

(3) The taxable amount for assessment of the tax under this Chapter shall be the sum total of the taxable amounts determined for each vessels according to the procedure established by Paragraph (2).

#### Rate of Tax

Article 258. The rate of tax under this Chapter shall be 10 per cent.

#### Declaring of Tax

Article 259. (1) The taxable persons shall exercise the right of choice thereof to levy of a tax under this Chapter by means of submission of a declaration in a standard form on or before the 31st day of December of the last preceding year.

(2) The taxable persons shall submit an annual tax return in a standard form on the tax due under this Chapter on or before the 31st day of March of the next succeeding year.

#### Tax Remittance

Article 260. The taxable persons shall remit the tax due under this Chapter monthly, not later than at the end of the next succeeding month.

## PART SIX

### ADMINISTRATIVE PENALTY PROVISIONS

#### Chapter Thirty-Five

#### ADMINISTRATIVE VIOLATIONS AND SANCTIONS

Article 261. (1) Any taxable person, which fails to submit a tax return under this Act, which fails to submit any such return when due, or which fails to state or misstates any particulars or circumstances leading to underassessment of the tax due or to undue reduction, retention of or exemption from tax, shall be liable to a pecuniary penalty of BGN 500 or exceeding this amount but not exceeding BGN 3,000.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty of BGN 1,000 or exceeding this amount but not exceeding BGN 6,000.

Article 262. (1) Any taxable person, which fails to submit any supplement to the annual tax return or which states any untrue particulars or circumstances in any such supplement, shall be liable to a pecuniary penalty of BGN 100 or exceeding this amount but not exceeding BGN 1,000.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty of BGN 200 or exceeding this amount but not exceeding BGN 2,000.

Article 263. (1) Any taxable person, which accounts for any business transaction in breach of the accounting policies thereof and this leads to a misdetermination of the accounting financial result of the said person, shall be liable to a pecuniary penalty of BGN 100 or exceeding this amount but not exceeding BGN 1,000 for each such breach.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty of BGN 200 or exceeding this amount but not exceeding BGN 2,000.

Article 264. (1) Any managing director, liquidator or trustee in bankruptcy, or holder of the position of liquidator or trustee in bankruptcy, who by any act or omission has committed any violation specified in Articles 261, 262 or 263 herein, shall be liable to a pecuniary penalty or a fine of BGN 200 or exceeding this amount but not exceeding BGN 1,000.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty or a fine of BGN 400 or exceeding this amount but not exceeding BGN 2,000.

Article 265. (1) Any taxable person, who or which fails to issue an accounting source documents for the accounting for income, shall be liable to a pecuniary sanction or a fine of BGN 500 or exceeding this amount but no exceeding BGN 3,000, unless subject to a severer sanction.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty or a fine of BGN 1,000 or exceeding this amount but not exceeding BGN 6,000.

Article 266. (1) Any taxable person, who fails to issue a fiscal cash receipt, shall be liable to a pecuniary penalty of BGN 200 or exceeding this amount but no exceeding BGN 2,000.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty of BGN 400 or exceeding this amount but not exceeding BGN 4,000.

Article 267. Any taxable person, who effects a hidden profit distribution, shall be liable to a pecuniary penalty to the amount of 50 per cent of the expense charged constituting a hidden profit distribution.

Article 268. (1) Any organizer of games of chance, which fails to fulfil the obligation thereof to keep daily and monthly records under Article 219 herein, shall be liable to a pecuniary penalty of BGN 2,000 or exceeding this amount but not exceeding BGN 10,000.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty of BGN 4,000 or exceeding this amount but not exceeding BGN 20,000.

Article 269. (1) Any enterprise referred to in Article 232 herein, printing tokens certifying participation or importing such tokens, which provides the tokens certifying participation without presentation thereto of the documents on the tax paid, shall be liable to a pecuniary penalty equivalent to the unremitted tax.

(2) Any repeated violation under Paragraph (1) shall be punishable by a pecuniary penalty in a double amount, and the



Minister of Finance shall disqualify the enterprise affected from printing or importing tokens certifying participation in the games covered under Section III of Chapter Thirty-Two herein for a period not exceeding six months.

Article 270. (1) Any organizer of games of chances referred to in Article 228 herein, which conducts such games without having paid the full amount of the tax due, shall be liable to a pecuniary penalty equivalent to double the amount of the tax due but in any case not less than BGN 2,000.

(2) The pecuniary penalty referred to in Paragraph (1) shall furthermore be imposed on any organizer of games of chance referred to in Article 228 herein which offers, sells or provides to any participant in the game of chance any token certifying participation which does not satisfy the statutorily established requirements as to the printing, form, type and cost price, or at a price exceeding the nominal value as printed on the relevant token certifying participation. No sanction shall be imposed where the tokens certifying participation have been revalued in respect of the series and the nominal value according to an inventory memorandum certified by a representative of the Ministry of Finance, a representative of the enterprise printing the tokens, and a revenue authority of the competent National Revenue Agency territorial directorate exercising competence over the place of registration of the organizer.

(3) Any repeated violation under Paragraphs (1) and (2) shall be punishable by a pecuniary penalty equivalent to the double amount of the tax due but in any case not less than:

1. BGN 4,000 and disqualification from practice of the activity according to the procedure established by Article 272 herein, where the repeated violation is under Paragraph (1);

2. BGN 6,000 and disqualification from practice of the activity according to the procedure established by Article 272 herein, where the repeated violation is under Paragraph (2).

Article 271. The pecuniary penalties referred to in Articles 269 and 270 herein shall be imposed notwithstanding the sanctions provided for in other laws, and the control authorities under the Gambling Act shall be notified of the violations as ascertained.

Article 272. (1) The administrative sanction of disqualification from practice of activity shall be imposed for a period of one month or exceeding this period but not exceeding six months.

(2) In the cases under Article 270 (2) herein, the revenue authorities shall seize and destroy the tokens certifying participation which do not satisfy the statutorily established requirements as to the printing, form, type and cost price, or any such tokens [which are sold] at a price exceeding the nominal value as printed thereon. The expenses shall be for the account of the taxable person.

(3) In the cases of imposition of an administrative sanction of disqualification from practice of activity, a coercive administrative measure of sealing of the establishment or establishments and prohibition of access thereto shall furthermore be imposed.

Article 273. (1) The implementation of the administrative sanction of disqualification from practice of activity shall be discontinued by the imposing authority at the request of the taxable person sanctioned according to an administrative procedure and after the said person has proved that the pecuniary penalty as imposed has been fully paid.

(2) In the cases referred to in Paragraph (1), the revenue authority shall furthermore decree unsealing of the establishment, which shall be performed with the obligation to cooperate on the part of the tax subject.

Article 274. The penalty decrees in the part thereof imposing the administrative sanction of disqualification from practice of activity and a coercive administrative measure of sealing of the establishment or establishments and denial of access thereto, as well as the decrees referred to in Article 273 herein, shall be subject to anticipatory enforcement unless the court orders otherwise.

Article 275. Any person, which fails to fulfil the obligation thereof under Article 187 (3) herein, shall be liable to a pecuniary penalty of BGN 1,000 or exceeding this amount but not exceeding BGN 3,000 and, upon a repeated commission of the violation, to a pecuniary penalty of BGN 2,000 or exceeding this amount but not exceeding BGN 6,000.

Article 276. Any taxable person, which fails to fulfil the obligations thereof under Article 92 (3) or (4) herein, shall be liable to a pecuniary penalty of BGN 500 or exceeding this amount but not exceeding BGN 2,000 and, upon a repeated commission of the violation, to a pecuniary penalty of BGN 1,500 or exceeding this amount but not exceeding BGN 5,000 for each unfulfilled obligation.

Article 277. (1) Any taxable persons, which have applied the procedure for taxation under Chapter Thirty-Four herein without qualifying for the right of choice, shall be liable to a pecuniary penalty of BGN 20,000 or exceeding this amount but not exceeding BGN 30,000 and, upon a repeated commission of the violation, to a pecuniary penalty of BGN 40,000 or

exceeding this amount but not exceeding BGN 60,000.

(2) The persons referred to in Paragraph (1) shall have no right to apply the procedure for taxation on the net tonnage of vessels for a period of five years.

Article 278. (1) The written statements ascertaining the violations shall be drawn up by the authorities of the National Revenue Agency, and the penalty decrees shall be issued by the Executive Director of the National Revenue Agency or by an official authorized thereby.

(2) The ascertainment of violations, the issue, appeal against and enforcement of penalty decrees shall follow the procedure established by the Administrative Violations and Sanctions Act .

#### SUPPLEMENTARY PROVISIONS

§ 1. Within the meaning given by this Act:

1. "The country" shall be the geographical territory over which the Republic of Bulgaria exercises the State sovereignty thereof, as well as the continental shelf and the exclusive economic zone wherewithin the Republic of Bulgaria exercises sovereign rights in conformity with international law.

2. "Permanent establishment" shall be a permanent establishment within the meaning given by Item 5 of § 1 of the Supplementary Provisions of the Tax and Social-Insurance Procedure Code .

3. "Financial asset" shall be the asset as defined in the applicable accounting standards, including the compensation instruments within the meaning given by Article 2 of the Transactions in Compensation Instruments Act . Where the person is not an enterprise within the meaning given by the Accountancy Act , the applicable accounting standards for the purposes of sentence one shall be the international accounting standards applicable in the country for the relevant year.

4. "Dividend" shall be the distribution in favour of a person, arising from the holding that such person has in the capital of another person, resulting in a reduction of the owners' equity of the latter, including:

(a) income from shares;

(b) income from participating interests, even in unincorporated associations, and from other corporate rights, where treated as income from shares;

(c) hidden profit distribution.

Any distribution which, according to accounting legislation, has been accounted for at the distributing person as an expense shall not be a dividend, with the exception of the cases of hidden profit distribution.

5. "Hidden profit distribution" shall be the expenses charged by a taxable person without being connected with the economic activity carried out thereby or exceeding the customary market levels, in the cases where made in favour of shareholders, members or any parties related thereto.

6. "Share in a liquidation surplus" shall be the distribution of a share in the property of a person upon the dissolution thereof in favour or another person or upon cessation of membership of that other person.

7. "Interest payment" shall be income from debt claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, including interest paid on deposits with banks and income (premiums) from debentures and bonds. For the purposes of Part Three herein, any income which constitutes a dividend, penalty charges for late payments and damages shall not be regarded as interest payments.

8. "Copyright and licence royalties" shall be payments of any kind received as a consideration for: the use of, or the right to use, any copyright of scientific, artistic or literary work, including cinematograph films and television films and recordings for transmission by radio or television or software; of any patent, trade mark, industrial design or utility model, drawing, plan, secret formula or process, as well as for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience. The payment for acquisition of a right to use software in which only a copy of the relevant program is incorporated shall not be considered to be copyright and licence royalties in case the rights to copy, reproduce, distribute, modify, publicly display or make commercial use in

any other form are not granted.

9. "Technical assistance fees" shall be the payments from a source inside the Republic of Bulgaria for erection or installation of tangible assets, as well as any services of a consulting nature and marketing research as provided by any non-resident person.

10. "Franchising" shall be a totality of industrial or intellectual property rights relating to trade marks, trade names, logotypes, utility models, designs, copyright, know-how or patents, granted in return for a royalty, to be used for sale of goods and/or provision of services.

11. "Factoring" shall be a transaction whereby single or periodic monetary claims arising from a supply of goods or a provision of services are transferred, regardless of whether the person who has acquired the claims (the factor) assumes the risk of collection of the said claims in consideration of the payment of a reward.

12. "Foreign tax credit" shall be the right, enjoyable under conditions as specified by this Act, to deduct a profits tax or a tax on income already paid abroad.

13. "Related parties" shall be the parties within the meaning given by Item 3 of § 1 of the Supplementary Provisions of the Tax and Social-Insurance Procedure Code .

14. "Market price" shall be the price within the meaning given by Item 8 of § 1 of the Supplementary Provisions of the Tax and Social-Insurance Procedure Code .

15. "Transfer between a permanent establishment and another division of the same enterprise" shall be the term referred to in Item 6 of § 1 of the Supplementary Provisions of the Tax and Social-Insurance Procedure Code .

16. "Accounting financial result" shall be the profit (loss) according to the profit-and-loss account (income statement) for a specified period before charging the tax expenses on the profit.

17. "Undistributable expenses" shall be all selling expenses, administrative, financial and extraordinary expenses which do not relate to a particular activity only and are associated with the implementation of any activity:

(a) in respect of which corporation tax retention is enjoyable, or

(b) subject to levy of corporation tax, performed by not-for-profit legal entities.

18. "Undistributable income" shall be all financial and extraordinary income which does not arise from the implementation of a particular activity only and is associated with implementation of any activity in respect of which corporation tax retention is enjoyable.

19. "Expenses on provisions for debts" shall be the expenses on provisions as accounted for, which meet the criteria for recognition of a provision according to the applicable accounting standards, including:

(a) the expected excesses of the total amount of expenses over income and the expected losses under construction contracts;

(b) the termination and post-employment benefits, equity compensation benefits and other long-term employee benefits.

20. "Debt capital", within the meaning given by Article 43 (6) herein, shall be the total liabilities of the enterprise, excluding the investment grants and subsidies.

21. "Disposition effected on a regulated Bulgarian securities market" shall be any transactions:

(a) (amended, SG No. 52/2007) concluded on the official and the second-tier regulated market in the country within the meaning given by the Markets in Financial Instruments Act , excluding block trades and other transactions in securities which, according to the Rules and Regulations of the regulated market, are subject only to registration on the regulated

market;

(b) (amended, SG No. 52/2007) concluded under the terms and according to the procedure of tender offering under Section II of Chapter Eleven, as well as the transactions under the terms and according to the procedure of repurchase or redemption by collective investment schemes which have been admitted to public offering in the Republic of Bulgaria, licensed investment companies of the closed-end type, according to the procedure established in the Markets in Financial Instruments Act.

22. "Documented cost of acquisition of securities or interests" shall be the cost of acquisition of the relevant securities which the person has documented according to the procedure established by the relevant statutory instruments. Where securities or interests of a particular type, issued by a particular person, have been acquired at different prices and part of the said securities or interests are subsequently sold and it is impossible to prove which of the said securities or interests are sold, the cost of acquisition of the securities or interests sold shall be the weighted average price arrived at on the basis of the cost of acquisition of the securities or interests held at the time of the sale. Sentence one shall apply in all cases of acts of disposition of securities or interests. Where new shares or interests are acquired as a result of a distribution which has not led to a reduction of the owners' equity of the person distributing the shares or interests, the documented cost of acquisition of the shares or interests held shall be recalculated. After acquisition of the new shares or interests under the foregoing sentence, the documented cost of acquisition of each share or interest, including the newly acquired ones, shall equal the sum total of the documented costs of acquisition of the shares or interests prior to the acquisition of the new shares or interests, divided by the total number of shares or interests held after the acquisition, including the newly acquired ones.

23. "Computer peripheral equipment" shall be all devices which are connected to the basic input/output system of a computer or are controlled by a computer but are not essential for the functioning of the said computer.

24. "Development activity" shall be the activity of developing, designing, building and testing new goods, materials, manufacturing technologies and industrial systems and other industrial property items, as well as improving existing products and technologies.

25. "Tax loss from a source outside Bulgaria", for the purposes of Articles 73 and 74 herein, shall be the sum total of the losses from all permanent establishments in the respective foreign State.

26. "Financial institutions" shall be:

(a) financial institutions within the meaning given by Article 3 of the Credit Institutions Act ;

(b) the insurers, reinsurers and non-resident persons carrying on insurance or reinsurance business through a permanent establishment under the Insurance Code ;

(c) (supplemented, SG No. 52/2007) the investment intermediaries under the Markets in Financial Instruments Act and the management companies under the Public Offering of Securities Act ;

(d) the companies carrying on business for the provision of supplementary social insurance.

27. "Unprocessed plant and animal produce" shall be any primary product derived from plants and animals which is used in its natural form, without undergoing any form of technological treatment or processing resulting in physical and chemical alterations of the composition thereof.

28. "Manufacturing activities", for the purposes of Article 184 herein, shall be the process of creation of a new product by means of mechanical, physical or chemical conversion (treatment or processing) of raw and prime materials for the purpose of subsequent sale and biological transformation of live animals or plants.

29. "Initial investment" shall be an investment in:

(a) tangible fixed assets for establishment of a new enterprise, for extension of an existing enterprise, or for start of an activity leading to material changes in the product manufactured or in the manufacturing process of an existing enterprise, related to efficiency improvement, diversification or modernization; an investment in an asset which replaces an existing asset of similar use and characteristics, as well as the acquisition of means of transport by taxable persons in the transport sector, shall not qualify as initial investment;

(b) patents, licences and know-how.

30. "Enterprise in difficulty" shall be an enterprise meeting simultaneously the following criteria:

(a) in the case of a limited liability company or a joint-stock company: where more than 50 per cent of the registered capital thereof has disappeared, and more than 25 per cent of that capital has been lost over the last preceding twelve months;

(b) in respect of all other corporations: where more than 50 per cent of the owners' equity thereof has disappeared, and more than 25 per cent of that capital has been lost over the last preceding twelve months;

(c) or where the corporation fulfils the criteria under the Commerce Act or under the law of the place of registration for institution of bankruptcy proceedings.

31. "De minimis aid" shall be the term within the meaning given by the State Aids Act .

32. "Market rate of interest" shall be the interest that would have been paid under the same conditions for credit extended or received under any form whatsoever under a transaction between parties who or which are not related. The market rate of interest shall be determined according to the conditions of the market, taking into account all quantitative and qualitative characteristics of the transaction: form, amount and currency of the resources provided, period of the provision thereof, type, amount and liquidity of the collateral security, credit risk and other risks related to the transaction, profile of the borrower or lessee, as well as all other conditions and circumstances influencing the rate of interest.

33. "Advertising expenses" shall be the expenses incurred for the promotion of goods and service, including gifts which bear the trade name or the trade mark of the taxable persons, within the limits of the customary for the activity carried out by the person.

34. "Expenses on fringe benefits provided in kind" shall be the perquisites accounted for as expenses covered under Article 294 of the Labour Code and provided according to the procedure and manner defined in Article 293 of the Labour Code or according to a procedure and manner determined by the management of the enterprise. The said perquisites must be available to all factory and office workers and to the persons hired under a management and control contract. Where monetary relationships under any form whatsoever exist between the employer of commissioning entity and the persons referred to in sentence two in respect of the perquisites received, this shall not represent provision of expenses on fringe benefits in kind.

35. "Operator", within the meaning given by Article 209 herein, shall be any person which has obtained authorization from the Minister of Finance and which engages in the activities of printing, organizing, control and settlement in connection with food vouchers according to a procedure established by an ordinance of the Minister of Finance.

36. "Food vouchers" shall be a type of paper medium of exchange provided through an employer to factory and office workers, including persons hired under management contracts, which are used as a medium of payment at restaurants, fast-food outlets and food trading establishments, according to a contract for provision of services concluded with an operator.

37. "Passenger car" shall be such car as defined in the Road Traffic Act .

38. "Extra bus services" shall be bus services running according to an endorsed transportation scheme in a mode allowing the vehicles to stop and passengers to alight and board at request where this is legally possible, complementing the principal urban transport services without fully duplicating them.

39. "Expenses on maintenance, repair and operation of means of transport" shall be the accounting expenses, related to the maintenance, repair and operation of the means of transport, incurred on:

(a) fuel, lubricants and other consumables;

(b) spare parts;

(c) repair work, including painting and collision-repair services;

(d) technical inspections and parking;

(e) vehicle care products and accessories.

40. "Means of transport" shall be the means of transport as specified in Section Four of Chapter Two of the Local Taxes and Fees Act, regardless of whether entered in a register kept according to Bulgarian legislation.

41. "Vessels operation activities" shall be:

(a) the effecting of carriage by sea by means of vessels of a net tonnage exceeding 100 tons, the chartering of any such vessels, as well as the sale of vessels subject to tonnage taxation, which have been acquired not less than five years prior to the sale thereof;

(b) carriage by land, related to the carriage by sea, administrative and insurance services and other services provided to customers in connection with the effecting of the carriage by sea;

(c) financial operations and value adjustments resulting from exchange rate fluctuation, related to the management of the working capital used for the vessels operation;

(d) extraordinary activities related to the vessels operation, which do not come within the scope of Litterae (a) to (c) and which generate a turnover which does not exceed 0.25 per cent of the turnover generated by the activities referred to in Litterae (a) and (b).

42. "Days of service" shall be the days on which the vessel is engaged in carriage and/or performs any activities related to carriage. The days of service shall exclude the time for repairs or in a port, as well as the time during which the vessel is not engaged in carriage and/or does not perform any activities related to carriage due to detention or force majeure.

43. "Net tonnage" shall be the measure, in tons, of the useful deadweight (cargo carrying capacity) of a vessel as certified by a tonnage certificate of the vessel.

44. "Repeated violation" shall be any violation which is committed within one year after the entry into effect of a penalty decree whereby the offender was penalized for a violation of the same kind.

§ 2. This Act transposes the provisions of Council Directive 2001/86/EC supplementing the Statute for a European company with regard to the involvement of employees and of Council Directive 2003/72/EC supplementing the Statute for a European Cooperative Society with regard to the involvement of employees with regard to the involvement of employees.

#### TRANSITIONAL AND FINAL PROVISIONS

§ 3. This Act shall supersede the Corporate Income Tax Act (promulgated in the State Gazette No. 115 of 1997; corrected in No. 19 of 1998; amended in Nos. 21 and 153 of 1998, Nos. 12, 50, 51, 64, 81, 103, 110 and 111 of 1999, Nos. 105 and 108 of 2000, Nos. 34 and 110 of 2001, Nos. 45, 61, 62 and 119 of 2002, Nos. 42 and 109 of 2003, Nos. 18, 53 and 107 of 2004, Nos. 39, 88, 91, 102, 103 and 105 of 2005, Nos. 30, 34, 59 and 63 of 2006).

§ 4. The adjustments of the financial result (accounting profit/loss) for tax purposes consequent to the application of Article 23 of the Corporate Income Tax Act as superseded until the 31st day of December 2006 shall be considered to be adjustments of the accounting financial result upon determination of the tax financial result according to the procedure and according to the relevant provision of this Act.

§ 5. The accounting income and expenses from subsequent valuations (revaluations and impairments) of depreciable assets, which are charged until the 31st day of December 2003 and which are not recognized for tax purposes until the 31st day of December 2006 according to the procedure established by Article 23 of the Corporate Income Tax Act as superseded, shall be recognized for tax purposes in the year of write-off the relevant asset in the tax depreciation schedule, with the exception of the cases of shrinkage.

§ 6. (1) The depreciable assets available in the tax depreciation schedule as at the 31st day of December 2006, with the exception of such specified in Paragraph (2), shall be considered to be taxable depreciable assets within the meaning given by Article 48 herein.

(2) The following assets available in the tax depreciation schedule shall be written off therein as at the 1st day of

January 2007:

1. the positive goodwill;
2. the assets which are not used in any activity in respect of which a tax financial result is formed;
3. the assets which are not classified as held for sale or are part of a group for exemption classified as held for sale;
4. the assets where the taxable person has been dissolved through liquidation or has been dissolved through adjudication in bankruptcy.

(3) Article 66 herein shall not apply in the cases of write-off of any assets under Item 1 and 2 of Paragraph (1).

§ 7. (1) The tax depreciable value of any tax depreciable asset available as at the 1st day of January 2007 shall be the depreciable value of the said asset as at the 31st day of December 2006 under the Corporate Income Tax Act as superseded.

(2) The tax depreciation charged of any tax depreciable asset available as at the 1st day of January 2007 shall be the tax-recognized amount of the expenses on depreciations for the relevant asset as at the 31st day of December 2006 under the Corporate Income Tax Act as superseded.

(3) The tax value of any tax depreciable asset available as at the 1st day of January 2007 shall be the tax carrying value of the said asset as at the 31st day of December 2006 under the Corporate Income Tax Act as superseded.

§ 8. The values of the tax depreciable assets available in the tax depreciation schedule as at the 1st day of January 2007 shall remain unchanged compared to the said values as at the 31st day of December 2006.

§ 9. (1) The revaluation reserve in the tax depreciation schedule shall be written off therein as at the 1st day of January 2007. The said write-off shall follow the procedure and manner specified in § 10 or 11 herein. The taxable person shall opt for the application of § 10 or 11 herein.

(2) The "revaluation reserve," within the meaning given by Paragraph (1), shall be the revaluation reserve (the subsequent valuations reserve) which is included in the tax depreciation schedule as at the 31st day of December 2006.

(3) Where a revaluation reserve (subsequent valuations reserve) other than the one which should have been included according to Article 22 of the Corporate Income Tax Act as superseded is included in the tax depreciation schedule as at the 31st day of December 2006, the said reserve shall be adjusted for the purposes of Paragraph (1).

(4) Sole traders shall write off the revaluation reserve according to a procedure and in a manner applicable to the taxable persons under this Act.

§ 10. (1) The taxable persons shall adjust on a single occasion the values of the depreciable assets in the tax depreciation schedule as at the 1st day of January 2007 as a result of the write-off of the revaluation reserve.

(2) The tax-recognized amount of the expenses on depreciations for a specific depreciable asset as at the 31st day of December 2006 shall be credited with the written off revaluation reserve for the relevant asset, as a result of which the tax depreciation of the said asset charged as at the 1st day of January 2007 shall be increased and the tax value of the asset as at the 1st day of January 2007 shall be decreased. After the increase, the tax depreciation charged for the relevant asset may not exceed the tax depreciable value of the asset as at the 1st day of January 2007.

(3) Where the revaluation reserve for a specific asset exceeds the tax carrying value of the said asset as at the 31st day of December 2006, the said asset shall be written off in the tax depreciation schedule as at the 1st day of January 2007, with the tax-recognized amount of the expenses on depreciations of other assets of the same category, determined within the meaning given by Article 22 of the Corporate Income Tax Act as superseded, being credited with the amount of the excess. Where the values of the assets of the said category are insufficient to fulfil the requirement of sentence one, the tax-recognized amount of the expenses on depreciations of assets of the other categories shall be increased.

(4) After the write-off of the revaluation reserve, the total amount of the tax values of all assets available in the tax depreciation schedule as at the 1st day of January 2007 must equal the total amount of the tax carrying values of all assets as at the 31st day of December 2006, debited with the revaluation reserve as written off.

(5) Paragraphs (1) to (4) shall not apply were the total amount of the revaluation reserve as written off exceeds the total amount of the tax carrying values of all assets available in the tax depreciation schedule as at the 31st day of December 2006. The taxable persons shall write off all assets available in the tax depreciation schedule as at the 31st day of December 2006 in the said schedule as at the 1st day of January 2007. The accounting financial result shall be credited with the difference between the total amount of the revaluation reserve and the total amount of the tax carrying values of all assets as at the 31st day of December 2006 upon determination of the tax financial result, inter alia upon determination of the quarterly prepayments according to the procedure established by § 11 herein.

§ 11. (1) Upon determination of the tax financial results, inter alia upon determination of the quarterly prepayments, the accounting financial result shall be credited with the revaluation reserve as written off as follows:

1. for 2007: with one-third of the revaluation reserve as written off;
2. for 2008: with one-third of the revaluation reserve as written off;
3. for 2009: with one-third of the revaluation reserve as written off.

(2) Upon dissolution of any taxable person, with the exception of the cases of dissolution upon transformation through change of the legal form under Article 264 of the Commerce Act, upon determination of the tax financial result for the year of dissolution the accounting financial result shall be credited with the portion of the revaluation result as written off whereby the accounting financial result has not been credited according to the procedure established by Paragraph (1).

(3) The taxable person may credit the accounting financial result thereof with the revaluation reserve as written off on a single occasion upon determination of the tax financial result thereof for 2007, inter alia upon determination of the quarterly prepayments. In this case Paragraphs (1) and (2) shall not apply.

§ 12. The provision of Item 6 of Article 55 (1) herein shall apply to any tax tangible fixed assets acquired after the 31st day of December 2006.

§ 13. For the purposes of Article 55 herein, the depreciable asset referred to in Item 55 (f) of § 1 of the Supplementary Provisions of the Corporate Income Tax Act as superseded shall be allocated to Category V.

§ 14. For the purposes of Article 55 herein, the depreciable asset, formed according to the Corporate Income Tax Act as superseded as a result of the tax-unrecognized portion of the excess of the sum total of the accounting depreciation quotas over the tax-recognized amount of the depreciations of the assets as a whole for the period commencing on the 1st day of January 1998 and ending on the 31st day of December 2002, shall be allocated to Category VII.

§ 15. Where as at the 1st day of January 2007 any depreciable asset has been withdrawn from use (no economic benefit has been derived therefrom) during a period longer than three months, and the charging of tax depreciations for the said asset according to the procedure established by the Corporate Income Tax Act as superseded has not been discontinued, the charging of tax depreciations for the said asset shall be discontinued on the 1st day of January 2007.

§ 16. The provision of Article 63 herein shall apply to any subsequent expenses completed after the 31st day of December 2006.

§ 17. For the purposes of Article 66 (1) herein, where the residual value is not included in the depreciable value of the asset within the meaning given by the Corporate Income Tax Act as superseded, the accounting carrying value of the asset shall be debited with the residual value thereof upon determination of the tax financial result.

§ 18. Article 68 herein shall apply to any assets acquired after the 31st day of December 2005.

§ 19. Article 45 herein shall not apply in the cases where the financial result for tax purposes has been credited with the subsequent valuation reserve (revaluation reserve) according to the procedure established by Article 23 of the Corporate Income Tax Act as superseded.

§ 20. Any unrecognized expenses on interest payments after the 1st day of January 2004 according to Article 26 of the Corporate Income Tax Act as superseded, subject to deduction and not deducted until the 31st day of December 2006, shall be deducted according to the procedure established by Article 43 herein until the lapse of five years since the year of non-recognition of the said expenses for tax purposes.

§ 21. The portion of the provisions for claims taxed for tax purposes (under the accounting legislation effective until the 31st day of December 2001) in the non-financial enterprises, whereby the financial result has not been debited according to the procedure established by Article 23 (3) of the Corporate Income Tax Act as superseded during succeeding years, shall be treated as unrecognized expense on subsequent valuation of a claim according to the procedure established by Article 34 of this Act.

§ 22. Any losses formed after the 1st day of January 2002 and subject to carry-forward, which have not been deducted until the 31st day of December 2006 according to the procedure established by Chapter Four of the Corporate Income Tax Act as superseded, shall be deducted according to the procedure established by Chapter Eleven herein.



§ 23. Article 95 herein shall not apply to any income and expenses originating as a result of any income and expenses, accounted for prior to the 1st day of January 2007, in respect of which there existed a difference between the amount as accounted for according to the accounting policies and the amount as determined by a regulatory authority according to a statutory instrument.

§ 24. The right to enjoy the reduction referred to in Article 60 (1) or the retention referred to in Articles 61d or 61e of the Corporate Income Tax Act as superseded in respect of the corporation tax due for 2006 shall furthermore vest in any taxable person which has not submitted a notification to the competent National Revenue Agency territorial directorate according to Article 51a of the Corporate Income Tax Act as superseded, subject to the condition that the said person fulfil all requirements provided for in the Act for the relevant corporation tax reduction or retention.

§ 25. Corporation tax retention shall be allowed according to the procedure established by Article 187 herein until the 31st day of December 2010.

§ 26. The taxable persons, which have been allowed to retain corporation tax in pursuance of § 60 of the Transitional and Final Provisions of the Corporate Income Tax Act as superseded, in respect of which the ten-year time limit under Article 20 as repealed of the Investment Promotion Act has not expired, shall be allowed to retain 30 per cent of the corporation tax due for 2007 in compliance with the conditions under Articles 189 and 190 herein.

§ 27. The annual taxable profit (loss), the annual corporation tax due, all alternative taxes, the taxes on expenses and the withholding taxes for 2006, which are declarable according to the procedure established by the Corporate Income Tax Act as superseded, shall be declared by means of submission of the relevant tax returns and within the time limits under the said Act.

§ 28. (1) The taxes due for 2006 under the Corporate Income Tax Act as superseded shall be remitted within the time limits and according to the procedure established by the said Act.

(2) The right referred to in Article 92 (5) herein shall be enjoyable by the taxable persons even upon declaring the corporation tax for 2006.

§ 29. The standard forms of annual tax returns for 2006 under the Corporate Income Tax Act as superseded shall be endorsed not later than the 10th day of January 2007 by an order of the Minister of Finance, which shall be promulgated in the State Gazette.

§ 30. Any provisions, which are included in the historical cost of a tax depreciable asset but are included in the depreciable value of the said asset according to the Corporate Income Tax Act as superseded, shall be recognized for tax purposes according to the procedure established by Article 39 herein.

§ 31. The ordinance referred to in Article 55 (4) herein shall be issued within six months after the entry of this Act into force.

§ 32. The Tax and Social-Insurance Procedure Code (promulgated in the State Gazette No. 105 of 2005; amended in Nos. 30, 33, 34, 59, 63, 73 and 82 of 2006) shall be amended and supplemented as follows:

1. In Article 141 :

(a) in Paragraph (1), the words "thirty days" shall be replaced by "sixty days";

(b) in Paragraph (2):

(aa) in sentence one at the end, there shall be added "and has not eliminated the deficiencies within fifteen days after the date of request by the revenue authority";

(bb) in sentence two, the words "there are no" shall be replaced by "there are";

(c) in Paragraph (3), after the words "application of the CADT" there shall be inserted "or failure to rule within the period under Paragraph (1)";

(d) Paragraphs (4) and (5) shall be amended to read as follows:

"(4) Any opinion on lack of grounds for application of the CADT shall be appealable by the recipient of the income or by the payer, if authorized to do so by the recipient of the income. Any such appeal shall follow the procedure for appeal of audit acts, and the appeal shall be lodged care of the territorial directorate whereto the request has been submitted.

(5) If there is an opinion on application of the CADT under Paragraph (1) or (2), the tax liabilities for the relevant income may be revised solely if there are grounds under Article 133 (2)."

2. In Article 142 (1) and (2) , the figure "25,000" shall be replaced by "50,000".

§ 33. This Act shall enter into force on the 1st day of January 2007.

This Act was adopted by the 40th National Assembly on the 14th day of December 2006 and the Official Seal of the National Assembly has been affixed thereto.

Annex 1

to Item 1 of Article 100

List of Companies in the Member States of the European Union Referred to in Item 1 of Article 100  
Herein

(a) companies incorporated under Council Regulation (EC) No 2157/2001 on the Statute for a European company (SE) and Council Directive 2001/86/EC supplementing the Statute for a European company with regard to the involvement of employees, included under Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society (SCE) and Council Directive 2003/72/EC supplementing the Statute for a European Cooperative Society with regard to the involvement of employees;

(b) companies under Belgian law known as: “societe anonyme”/”naamloze vennootschap”, “societe en commandite par actions”/”commanditaire vennootschap op aandelen”, “societe privee a responsabilite limitee”/”besloten vennootschap met beperkte aansprakelijkheid”, “societe cooperative a responsabilite limitee”/”cooperative vennootschap met beperkte aansprakelijkheid”, “societe en nom collectif”/”vennootschap onder firma”, “societe en commandite simple”/”gewone commanditaire vennootschap”, public undertakings which have adopted one of the above-mentioned legal forms, as well as other companies constituted under Belgian law and which are subject to the Belgian Corporate Tax;

(c) companies under Czech law known as: “akciová společnost”, “společnost s ručením omezeným”;

(d) companies under Danish law known as “aktieselskab” and “anpartsselskab”. Other companies subject to tax under the Corporation Tax Act, in so far as their taxable income is calculated and taxed in accordance with the general tax legislation rules applicable to “aktieselskaber”;

(e) companies under German law known as: “Aktiengesellschaft”, “Kommanditgesellschaft auf Aktien”, “Gesellschaft mit beschränkter Haftung”, “Versicherungsverein auf Gegenseitigkeit”, “Erwerbs- und Wirtschaftsgenossenschaft”, “Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts”, as well as other companies constituted under German law and subject to German corporate tax;

(f) companies under Estonian law known as: “täisühing”, “usaldusühing”, “osahing”, “aktsiaselts”, “tulundusühistu”;

(g) companies under Greek law known as: ??????? ???????”, “???????? ??????????????c ??????c” (?.?.?) and other companies constituted under Greek law and subject to Greek corporate tax;

(h) companies under Spanish law known as: “sociedad anonima”, “sociedad comanditaria por acciones”, “sociedad de responsabilidad limitada”, as well as those public law bodies which operate under private law. Other entities constituted under Spanish law and subject to Spanish corporate tax (‘Impuesto sobre Sociedades’);

(i) companies under French law known as: “societe anonyme”, “societe en commandite par actions”, “societe a responsabilite limitee”, “societe par actions simplifiee”, “societe d’assurances mutuelles”, “caisses d’epargne et de prevoyance”, “societes civiles”, which are automatically subject to corporation tax, “cooperatives”, “unions de cooperatives”, industrial and commercial public establishments and undertakings, as well as other companies constituted under French law which are subject to the French Corporate Tax;

(j) companies incorporated or existing under Irish laws, bodies registered under the Industrial and Provident Societies Act, building societies incorporated under the Building Societies Acts and trustee savings banks within the meaning of the Trustee Savings Banks Act, 1989;

(k) companies under Italian law known as “societa per azioni”, “societa in accomandita per azioni”, “societa a responsabilita limitata”, “societa coperativa”, “societa di mutual assicurazione”, as well as private and public entities whose activity is wholly or principally commercial;

(l) under Cypriot law: “???????c”, as defined in the Income Tax laws;

(m) companies under Latvian law known as: “akciju sabiedriba”, “sabiedriba ar ierobezotu atbildibu”;

(n) companies incorporated under the law of Lithuania;

(o) companies under Luxembourg law known as “societe anonyme”, “societe en commandite par actions”, “societe a responsabilite limitee”, “societe cooperative”, “societe cooperative organisee comme une societe anonyme”, “association d’assurances mutuelles”, “association d’epargne-pension”, “entreprise de natura commerciale, industrielle ou miniere de l’Etat, des communes, des syndicats de communes, des etablissements publics et des autres personnes marales de droit public”, as well as other companies constituted under Luxembourg law which are subject to the Luxembourg Corporate Tax;

(p) companies under Hungarian law known as: “kozkereseti tarsasag”, “bereti tarsasag”, “kozos vallat”, “korlatolt felelossegu tarsasag”, “reszvenytarsasag”, “egyesules”, “szovetkezet”;

(q) companies under Maltese law known as: “Kumpaniji ta’ Responsabilita Limitata”, “Socjetajiet en commandite li l-kapital taghom maqsum fazzjonijiet”;

(r) companies under Dutch law known as “naamloze vennootschap”, “besloten vennootschap met beperkte aansprakelijkheid”, “Open commanditaire vennootschap”, “Cooperatie”, “onderlinge waarborgmaatschappij”, “Fonds voor gemene rekening”, “vereniging op cooperative grondslag”, “vereniging welke op onderlinge grondslag als verzekeraar of kredietinstelling optreedt”, as well as other companies constituted under Dutch law which are subject to the Dutch Corporate Tax;

(s) companies under Austrian law known as: “Aktiengesellschaft”, “Gesellschaft mit beschränkter Haftung”, “Versicherungsvereine auf Gegenseitigkeit”, “Erwerbs- und Wirtschaftsgenossenschaften”, “Betriebe gewerblicher Art von Körperschaften des öffentlichen Rechts”, “Sparkassen”;

(t) companies under Polish law known as: “spolka akcyjna”, “spolka z ograniczona odpowiedzialnoscia”;

(u) commercial companies or civil law companies having a commercial form, as well as cooperatives and public undertakings, incorporated under Portuguese law;

(v) companies under Slovenian law known as: “delniska druzba”, “komanditna druzba”, “druzba z omejeno odgovornostjo”;

(w) companies under Slovak law known as: “akciová spoločnosť”, “spoločnosť s ručením obmedzeným”, “komanditná spoločnosť”;

(x) companies under Finnish law known as “osakeyhtiö”/”aktiebolag”, “osuuskunta”/”andelslag”, “saastopankki”/”sparbank” and “vakuutusyhtiö”/”forsakringsbolag”;

(y) companies under Swedish law known as “aktiebolag”, “forsakringsaktiebolag”, “ekonomiska foreningar”, “sparbanker”, “omsesidiga forsakringsbolag”;

(z) companies incorporated under the law of the United Kingdom of Great Britain and Northern Ireland.

## Annex 2

to Item 3 of Article 100 and Item 1 of Article 108 (2)

### List of Taxes in the Member States of the European Union

- impot des societes/vennootschapsbelasting in Belgium,
- selskabsskat in Denmark,
- Körperschaftsteuer in the Federal Republic of Germany,
- ????? ??????μ???? ?μ???? ????????? ?????????????? ?????????? [in Greece],
- impuesto sobre sociedades in Spain,
- impot sur les societes in France
- corporation tax in Ireland,
- imposta sul reddito delle persone giuridiche in Italy,
- impot sur le revenu des collectivites in Luxembourg,
- venflootschapsbelasting in the Netherlands,
- imposto sobre o rendimento das pessoas colectivas in Portugal,
- corporation tax in the United Kingdom of Great Britain and Northern Ireland,
- Körperschaftsteuer in Austria
- yhteisöjen tulovero/inkomstskatten for samfund in Finland,
- statlig inkomstskatt in Sweden,
- Dan z prijmu pravnickych osob in the Czech Republic,
- Tulumaks in Estonia,
- ????? ?????????????? in Cyprus,
- uzņemumu ienākuma nodoklis in Latvia,

- Pelno mokestis in Lithuania,
- Tarsasagi ado in Hungary,
- Taxxa fuq l-income in Malta,
- Podatek dochodowy od osob prawnych in Poland,
- Davek od dobicka pravnih oseb in Slovenia,
- Dan z prijmu pravnickych osob in Slovakia.

### Annex 3

to Item 1 of Article 137

List of Companies in the Member States of the European Union Referred to in Item 1 of Article 137  
Herein

(a) companies incorporated under Council Regulation (EC) No 2157/2001 on the Statute for a European company (SE) and Council Directive 2001/86/EC supplementing the Statute for a European company with regard to the involvement of employees, included under Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society (SCE) and Council Directive 2003/72/EC supplementing the Statute for a European Cooperative Society with regard to the involvement of employees;

(b) companies under Belgian law known as “societe anonyme”/”naamloze vennootschap”, “societe en commandite par actions”/”commanditaire vennootschap op aandelen”, “societe privee a responsabilite limitee”/”besloten vennootschap met beperkte aansprakelijkheid”, “societe cooperative a responsabilite limitee”/”cooperative vennootschap met beperkte aansprakelijkheid”, “societe en nom collectif”/”vennootschap onder firma”, “societe en commandite simple”/”gewone commanditaire vennootschap”, public undertakings which have adopted one of the above-mentioned legal forms, as well as other companies constituted under Belgian law and subject to the Belgian Corporate Tax;

(c) companies under Czech law known as: “akciová společnost”, “společnost s ručením omezeným”;

(d) companies under Danish law known as “aktieselskab” and “anpartsselskab”; other companies subject to tax under the Corporation Tax Act, in so far as their taxable income is calculated and taxed in accordance with the general tax legislation rules applicable to “aktieselskaber”;

(e) companies under German law known as: “Aktiengesellschaft”, “Kommanditgesellschaft auf Aktien”, “Gesellschaft mit beschränkter Haftung”, “Versicherungsverein auf Gegenseitigkeit”, “Erwerbs- und Wirtschaftsgenossenschaft”, “Betriebe gewerblicher Art von juristischen Personen des öffentlichen Rechts”, as well as other companies constituted under German law and subject to German corporate tax;

(f) companies under Estonian law known as: “täisühing”, “usaldusühing”, “osahing”, “aktsiaselts”, “tulundusühistu”;

(g) companies under Greek law known as: “??????? ??????”, “??????? ??????????????c ??????c” (?.?.?);

(h) companies under Spanish law known as: “sociedad anonima”, “sociedad comanditaria por acciones”, “sociedad de responsabilidad limitada”, as well as those public law bodies which operate under private law;

(i) companies under French law known as “societe anonyme”, “societe en commandite par actions”, “societe a responsabilite limitee”, “societe par actions simplifiee”, “societe d’assurances mutuelles”, “caisses d’epargne et de prevoyance”, “societes civiles”, which are automatically subject to corporation tax, “cooperatives”, “unions de cooperatives”, industrial and commercial public establishments and undertakings, as well as other companies constituted under French law which are subject to the French Corporate Tax;

(j) companies incorporated or existing under Irish laws, bodies registered under the Industrial and Provident Societies Act, building societies incorporated under the Building Societies Acts and trustee savings banks within the meaning of the Trustee Savings Banks Act, 1989;

(k) companies under Italian law known as: “societa per azioni”, “societa in accomandita per azioni”, “societa a responsabilita limitata”, “societa coperativa”, “societa di mutual assicurazione”, as well as private and public entities whose activity is wholly or principally commercial;

(l) under Cypriot law: “???????c”, as defined in the Income Tax laws;

(m) companies under Latvian law known as: “akciju sabiedriba”, “sabiedriba ar ierobezotu atbildibu”;

(n) companies incorporated under the law of Lithuania;

(o) companies under Luxembourg law known as: “societe anonyme”, “societe en commandite par actions”, “societe a responsabilite limitee”, “societe cooperative”, “societe cooperative organisee comme une societe anonyme”, “association d’assurances mutuelles”, “association d’epargne-pension”, “entreprise de natura commerciale, industrielle ou miniere de l’Etat, des communes, des syndicats de communes, des etablissements publics et des autres personnes marales de droit public”, as well as other companies constituted under Luxembourg law which are subject to the Luxembourg Corporate Tax;

(p) companies under Hungarian law known as: “kozkereseti tarsasag”, “bereti tarsasag”, “kozos vallat”, “korlatolt felelossegu tarsasag”, “reszvenytarsasag”, “egyesules”, “kozhasznu tarsasag”, “szovetkezet”;

(q) companies under Maltese law known as: “Kumpaniji ta’ Responsabilita Limitata”, “Socjetajiet en commandite li l-kapital taghom maqsum fazzjonijiet”;

(r) companies under Dutch law known as: “naamloze vennootschap”, “besloten vennootschap met beperkte aansprakelijkheid”, “Open commanditaire vennootschap”, “Cooperatie”, “onderlinge waarborgmaatschappij”, “Fonds voor gemene rekening”, “vereniging op cooperative grondslag” and “vereniging welke op onderlinge grondslag als verzekeraar of kredietinstelling optreedt”, as well as other companies constituted under Dutch law which are subject to the Dutch Corporate Tax;

(s) companies under Austrian law known as: “Aktiengesellschaft”, “Gesellschaft mit beschränkter Haftung”, “Erwerbs- and Wirtschaftsgenossenschaften”;

(t) companies under Polish law known as: “spolka akcyjna”, “spolka z ograniczona odpowiedzialnoscia”;

(u) commercial companies or civil law companies having a commercial form, as well as other legal persons carrying on commercial or industrial activities, which are incorporated under Portuguese law;

(v) companies under Slovenian law known as: “delniska družba”, “komanditna družba”, “družba z omejeno odgovornostjo”;

(w) companies under Slovak law known as: “akciová spoločnosť”, “spoločnosť s ručením obmedzeným”, “komanditná spoločnosť”;

(x) companies under Finnish law known as: “osakeyhtiö”/”aktieföretag”, “osuuskunta”/”andelslag”, “saastopankki”/”sparbank” and “vakuutusyhtiö”/”försäkringsföretag”;

(y) companies under Swedish law known as: “aktieföretag”, “försäkringsaktieföretag”, “ekonomiska föreningar”, “sparbanker”, “ömsesidiga försäkringsföretag”;

(z) companies incorporated under the law of the United Kingdom of Great Britain and Northern Ireland.

#### Annex 4

to Item 3 of Article 137

#### List of Taxes in the Member States of the European Union

- impot des sociétés/vennootschapsbelasting in Belgium,
- selskabsskat in Denmark,
- Körperschaftsteuer in the Federal Republic of Germany,
- ????? ?????μ???? μ???? ????????? ????????????????????????? in Greece,
- impuesto sobre sociedades in Spain,
- impot sur les sociétés in France,
- corporation tax in Ireland,
- imposta sul reddito delle società in Italy,
- impot sur le revenu des collectivités in Luxembourg,
- vennootschapsbelasting in the Netherlands,
- imposto sobre o rendimento das pessoas colectivas in Portugal,
- corporation tax in the United Kingdom of Great Britain and Northern Ireland,
- Körperschaftsteuer in Austria,
- yhteisöjen tulovero/inkomstskatten för samfund in Finland,

- statlig inkomstskatt in Sweden,
- Dan z prijmu pravnickych osob in the Czech Republic,
- Tulumaks in Estonia,
- ????? ????????????? in Cyprus,
- uznemumu ienakuma nodoklis in Latvia,
- Pelno mokestis in Lithuania,
- Tarsasagi ado in Hungary,
- Taxxa fuq l-income in Malta,
- Podatek dochodowy od osob prawnych in Poland,
- Davek od dobicka pravnih oseb in Slovenia,
- Dan z prijmov pravnickych osob in Slovakia.